

4. Philip Morris Inc. (PM)

105. Philip Morris is organized into five operating companies: Philip Morris USA, Philip Morris International, Miller Brewing Company, Philip Morris Industrial and the Mission Viejo Company. The United States tobacco operating company accounts for 25 per cent of the United States market. Philip Morris International, set up two decades ago, is the company's second largest operating unit. PM's globalization has attained new levels in recent years since more than a third of its operating revenues emanates from PM International. The conglomerate structure of Philip Morris is shown in chart X.

(a) Tobacco

106. Philip Morris International (PMI) has more than 175 brands which are marketed in about 160 countries and territories. Of world cigarette sales of 3,100 billion units in 1975 (excluding sales in the United States) PMI accounted for around 4.8 per cent. ^{52/} The figures are indicative of the global orientation of PMI, with the volume of sales encompassing 10 per cent or more of market shares in over 20 countries. ^{53/} In addition to five plants in the United States, it has manufacturing facilities in 19 other countries and distribution outlets in about 150 countries. ^{54/}

107. Marketing expansion has been sustained, notably in Europe, the Middle East and Africa, with growth taking the form of acquisition of national cigarette companies (of which Brazil is a striking recent example) as well as the setting up of new companies and licensing agreements, which has been the recent standard pattern for the tobacco oligopoly as a whole. To overcome trade barriers in EEC, a five-year plan was set in motion which, in the first phase, led to a considerable expansion in the Federal Republic of Germany. In Costa Rica, an agreement was signed in 1975 by Philip Morris with a Costa Rican group which enables PM to acquire a substantial equity share of two family-owned enterprises: Tabacalera Constarricense S.A., which manufactures cigarettes for the local market, and Mendiola and Co., a marketing and distribution agency and also an importer. This acquisition by PM of a substantial equity now gives it effective control of 37 per cent (in 1974) of the Costa Rican market, with the remainder controlled by BAT through the Republic Tobacco Company.

108. Brazil has recently become an important base for economic penetration of the tobacco transnationals. For a long time its market was almost exclusively a BAT preserve, and BAT's grip still extends to 85 per cent. In order to

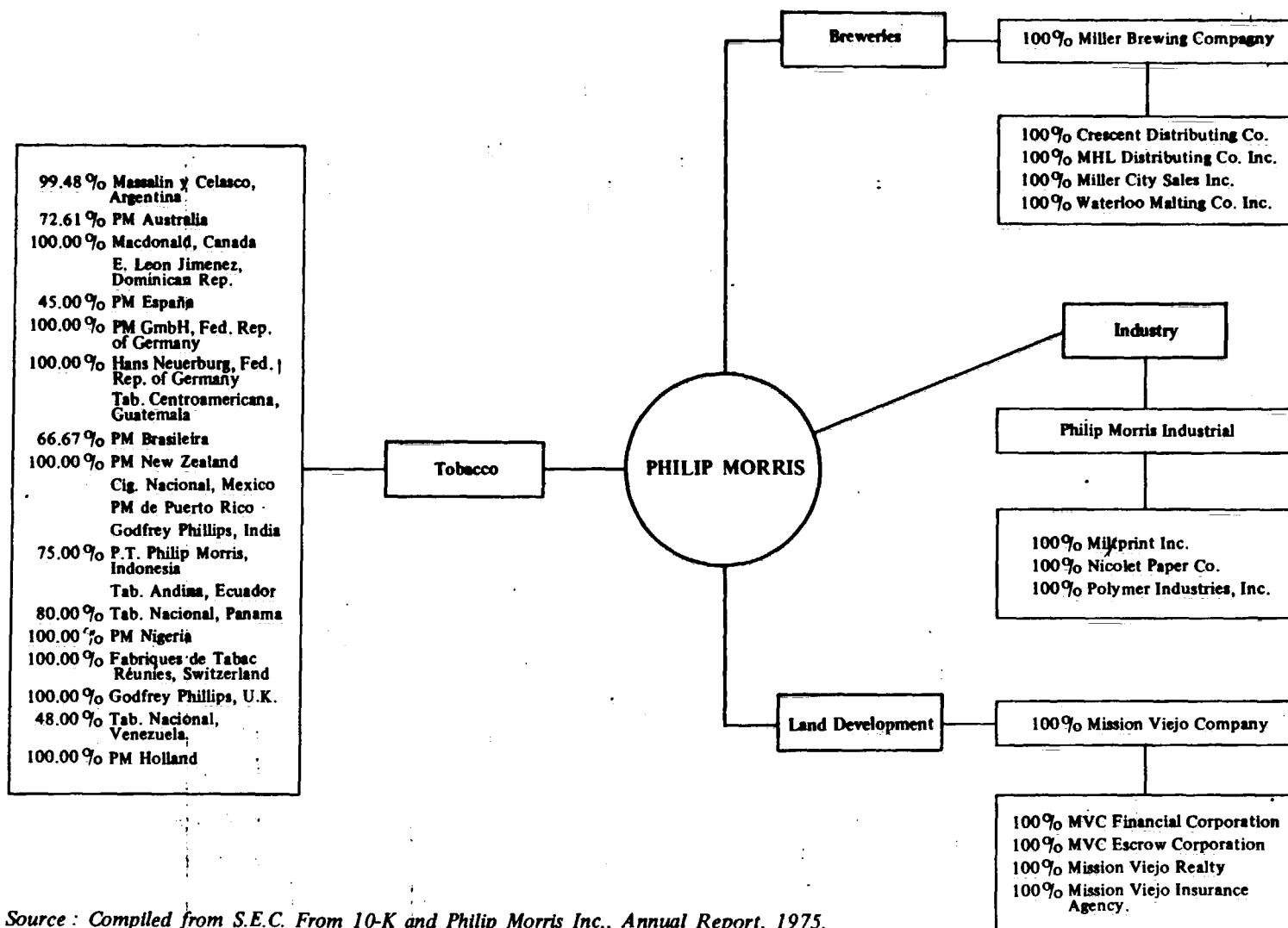
^{52/} Advertising Age, 18 August 1975. One brand alone (Marlboro) was mainly responsible for these marketing strides in recent years.

^{53/} Ibid. These countries include Australia, Canada, Italy, Mexico, Nigeria, the Philippines, Switzerland and Venezuela.

^{54/} Brazilian Bulletin, September 1975.

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Chart X
Major Business Groups of Philip Morris



Source: Compiled from S.E.C. Form 10-K and Philip Morris Inc., Annual Report, 1975.

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appropriate a larger segment (it had earlier acquired the Philip Morris Brasileira S.A.) Philip Morris bought out the Companhia de Fumos Santa Cruz, with its extensive marketing and distribution networks and a number of popular national brands.

109. PM has set up manufacturing subsidiaries and entered into licensing agreements in those cases where tariff barriers precluded United States exports. Licensing agreements cover all continents, and the Marlboro brand has now acquired an important foothold in the socialist countries of Eastern Europe. In Bulgaria, both PM and Reynolds receive royalties of 50 - 55 cents per 1,000 cigarettes, which could yield about \$2 million in combined revenues. Sales of United States grown tobacco and proprietary packaging machinery should raise 1976 revenues from Bulgaria to about \$10 million. 55/

110. Indeed, this strategy of penetration into the socialist countries of Eastern Europe is common to all TTCs. It would therefore appear that the licensing of their brands is just the first phase in the strategy. Joint production ventures are likely to follow, with output geared to hard-currency markets. The Bulgarians, notes a Reynolds spokesman, "have a well-developed industry and labour costs are low there, so we would not exclude making and selling a new brand X in third markets." 56/ The consumer attraction for the transnational brands in the socialist countries of Eastern Europe is great, despite much higher prices than local brands. In a very short time the Philip Morris brand produced in Moscow accounted for 1.4 per cent 57/ of quality cigarette markets in the USSR. Within the Moscow region it would appear that the market share of the Apollo-Soyuz brand is much higher; supply and not demand, is the constraint on expanded sales.

111. The extent of PM's penetration can best be seen in Italy, where a State tobacco monopoly exists. Altogether, the TTCs have taken over 32.6 per cent of the Italian market, of which PM's share totalled almost three-quarters.

112. Subsidiaries of the company are active in the greeting card and printing businesses in the United Kingdom. Philip Morris (Australia) Ltd. owns all of the outstanding shares of Linderman (Holdings) Limited, a leading Australian wine maker.

(b) Breweries

113. The process of conglomerated diversification within the United States began in 1970, with the acquisition of the Miller Brewing Company (the fourth largest in that country). The strategy behind choosing the brewery industry for

55/ Business Week, 9 February 1976.

56/ Ibid.

57/ International Herald Tribune, 26 April 1976. Business Week, 9 February 1976, noted that: "In commemoration of last June's United States-Soviet linkup, 500 million Apollo-Soyuz brand cigarettes were jointly manufactured by Philip Morris and the Yava cigarette factory in Moscow, priced at just under \$1 a pack. They were sold out as soon as they hit the Soviet shops, but they immediately hit the black market at four times the original price".

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diversification (as with Imperial) was that United States cigarette sales, at around \$14 billion, were about the same as for beer, and both are low-cost consumer items; both are processed and packaged products of agricultural origin, lend themselves to highly automated technology with a high volume turnover, and are marketed through the same mass retail outlets. ^{58/} In 1975, Miller Brewing Company assumed full United States distribution rights for Löwenbrau beer under a multi-phase agreement with Löwenbrau München AG.

(c) Industry

114. The industrial division embraces food, packaging materials, chemicals and paper, and other industrial products. Its principal companies are Milprint, Inc., a packaging company whose products are used for snack foods, candy, coffee, processed meat and dry processed goods; Nicolet Paper Company, a maker of technical and specialty paper; Polymer Industries, Inc., a manufacturer of specialty adhesive and textile chemicals; the Wikalin Polymer Chemie GmbH in the Federal Republic of Germany; and the Koch Label Company, a specialized printer.

(d) Land development

115. In 1972 the Mission Viejo Co. in Southern California was acquired. It is a land development and home building corporation, whose principal activity is the development of 10,000 acres. It has also extended its land development programme into other states in the United States.

116. PM's growth and sectoral diversification can best be illustrated by its sales revenues. In 1961 revenue stood at \$529 million; by 1975, this figure had soared to \$3,642 million (see table 14).

Table 14
Philip Morris: Total sales, 1970 and 1975

<u>Company</u>	1970		1975	
	\$ million	%	\$ million	%
PM (USA)	920	61	1 721	47
PM International	425	28	1 040	29
Miller Brewing Co.	78 ^{a/}	5	658	18
PM Industrial	86	6	152	4
Mission Viejo Co.	-	-	71	2
Total sales	1 509	100	3 642	100

Source: Annual Report 1975: SEC Form 10-K, 31 December 1974 and 1975.

^{a/} August - December.

^{58/} Cf. the statement by the Vice-President of PM, cited in Maxwell Consumer Services Reports, The Tobacco Conference, 5-11 June 1975.

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5. Rothmans/Rembrandt Group

117. This South African holding corporation is one of the largest and most powerful members of the TTCs. Even compared to the very parsimonious public information of the United Kingdom TTCs, little data is available from the annual reports of the corporation.

118. It was reported in 1975 that the Rembrandt Group (in South Africa alone) is the third largest South African corporation, with a capital ^{59/} of £159.7 million and a net profit after tax of £12.7 million. The Rembrandt Group, headed by Anton Rupert, noted that during 1975 the Group and its various associates "were able to increase their market share in South Africa and in a number of other countries. The Group's combined sales in 180 countries now represent 1 in 12 cigarettes sold in the free world". ^{60/}

119. The Rembrandt Group with its associates is, according to its press releases "a unique enterprise of equal partners with 70 factories in 30 countries, 24 breweries in 6 countries and 19 wineries and distilleries in 5 countries". To this should be added a wide range of mining and industrial enterprises, including one of the largest textile industries in South Africa, I.L. Back and Company. Group assets exceed R2,000 million with turnover approximately R4,000 million (one Rand = 80.87). The corporate structure of Rembrandt is shown in chart XI.

120. In 1972, Rothmans and Carreras were fused in a complicated legal takeover that linked all of the Rembrandt Group's European interests in Rothmans International at an estimated cost of \$350 to \$400 million. This conferred on the Rembrandt Group a 75 per cent controlling interest in the fifth largest tobacco company in the world, with a 1976 turnover of £1.2 billion and a trading profit of £4.8 billion. ^{61/} There is no consolidated report for the Rembrandt-Rupert Group.

121. Sales and trading profits in 1976 of Rothmans International were concentrated in Europe, although as can be seen from table 15 Asia, with 15 per cent of total sales, was an important profit centre, accounting for 30 per cent of the Group's total trading profits.

Table 15
Rothmans International: Geographical sales spread, 1976
(Per cent)

Region/Country	Trading profits	Group sales
Germany, Fed. Rep. of	26	31
United Kingdom	7	10
Other Europe	27	41
Asia	30	15
Other countries	10	3

Source: Annual Report, 1976.

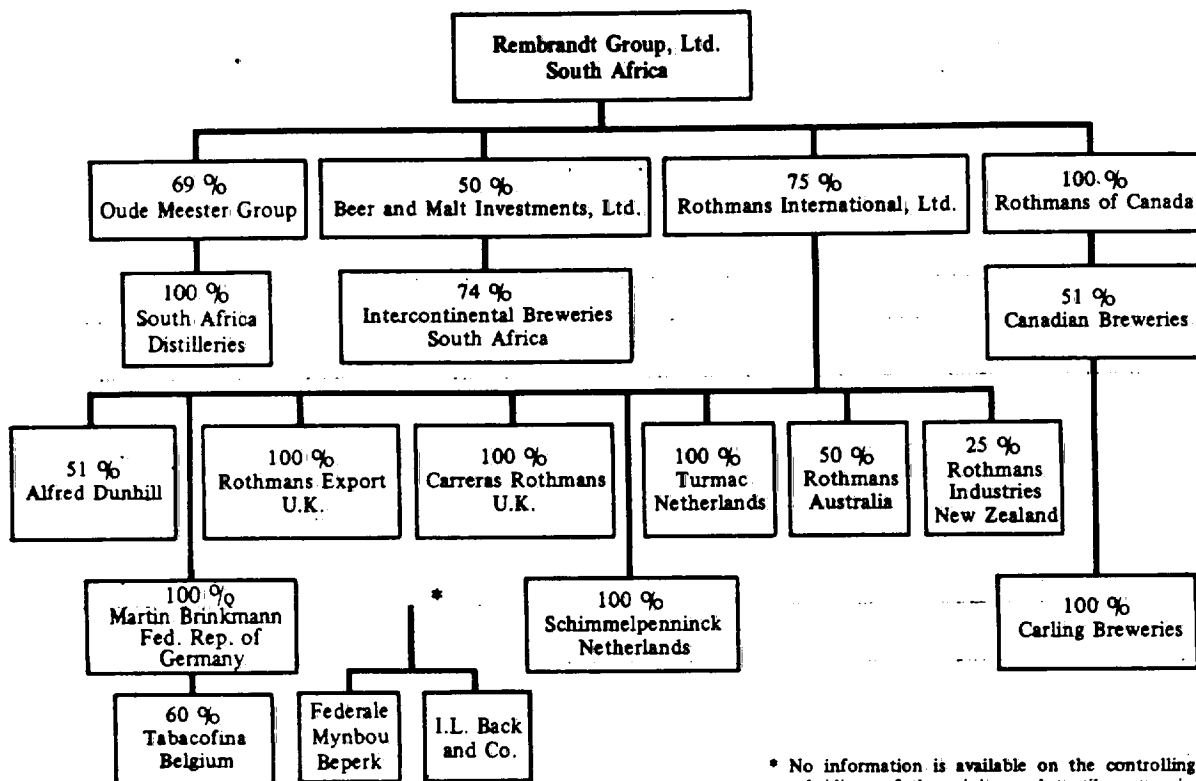
^{59/} The Times 1000, 1974-1975, London, 1975 (op.cit), p. 87. Defined as tangible assets less current liabilities (excluding bank loans and overdrafts).

^{60/} A. Rupert, Partners in Progress, Rembrandt Group Ltd, Stellenbach, 1976, p. 8.

^{61/} Rothmans International, Annual Report and Accounts. 1976. p. 23.

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Chart XI
REMBRANDT GROUP Ltd. : CORPORATE STRUCTURE



* No information is available on the controlling subsidiary of the mining and textile enterprises.

SOURCE : BUSINESS WEEK, September 1974 and Annual Report 1976.

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Take-over of Liggett and Myers (L and M)

122. Although Rothmans International still remains predominantly tobacco-oriented (see table 16), plans have already been made for a vast extension of its operations into other sectors. ^{62/} The effective control of what has been renamed the Liggett Group by the Rembrandt/Rothman Group is a step in this direction. L and M is one of the smaller TTCs. In 1975 it held slightly over 4 per cent of the United States market, around 18 per cent in Argentina, and was a leader in Bolivia. ^{63/}

Table 16
Liggett Group: Revenues and operating income, 1975

Product line	Revenues		Operating income	
	($\text{\$}$ million)	%	($\text{\$}$ million)	%
Tobacco products	397	43.2	37	41.5
Pet foods	177	26.0	14	15.8
Spirits and wines	167	20.2	29	32.0
Other products	72	10.6	10	10.7
Total	813	100.0	90	100.0

Source: Annual Report, 1975.

6. American Brands Inc.

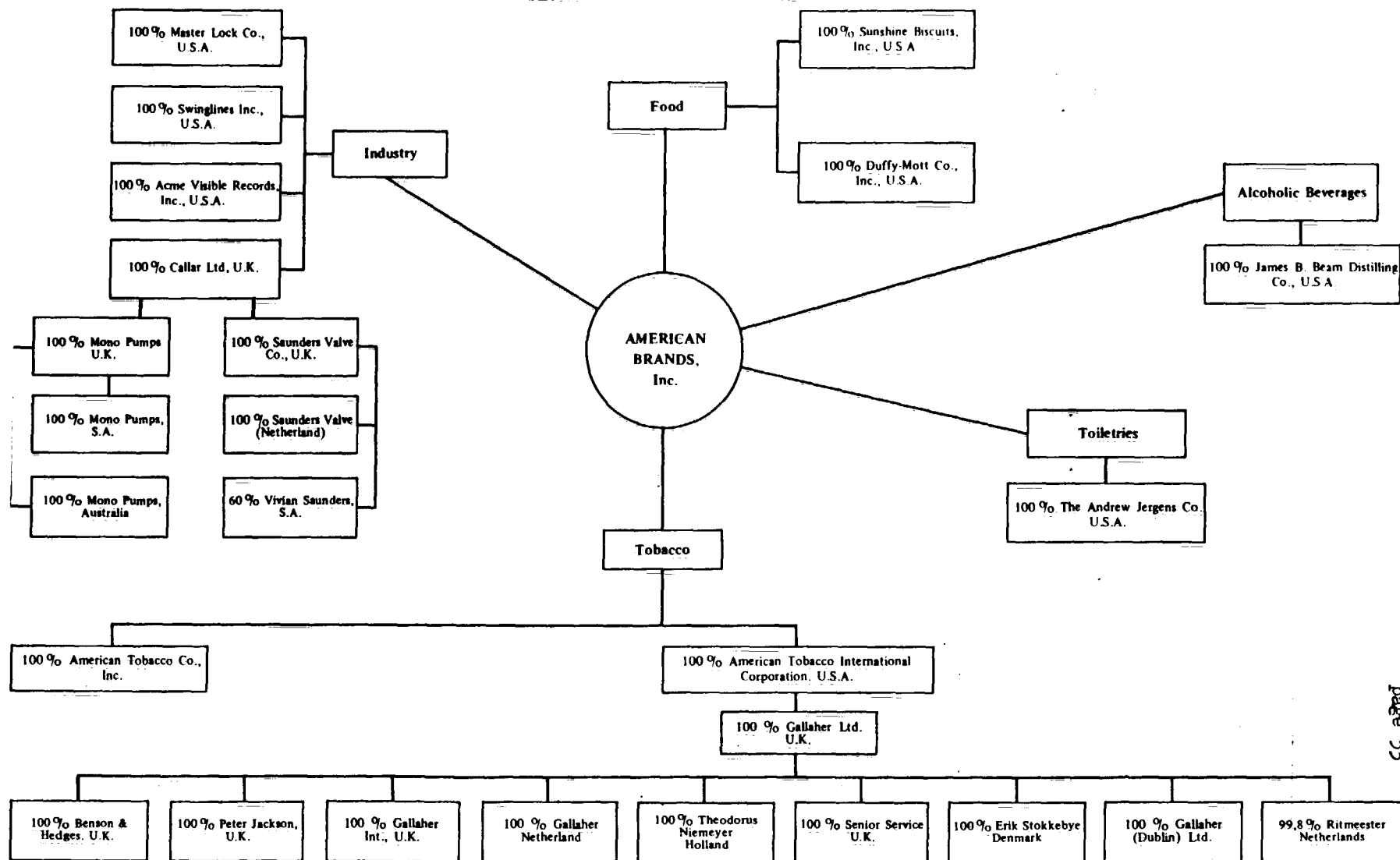
123. The cigarettes, cigars and smoking tobacco division of American Brands is the American Tobacco Co. and is the conglomerate's focal profit centre. The conglomerate structure of this TTC is shown in chart XII. American Brand's share of the United States cigarette market is 15 per cent and it is one of the four largest tobacco manufacturers in that country. It is among the 30 largest national United States advertisers and one of the leading successor companies to the former American Tobacco Company (ATC), which was broken up in 1911 by judgement of the Supreme Court of the United States.

^{62/} In addition to tobacco proper, it has increasingly diversified into wines, and spirits, canned dog food, cereal products and industrial manufacturing. According to its official statements, foreign sources (export sales, royalties from its Brazilian subsidiary) accounted for around 11 per cent of operating income.

^{63/} In Ecuador one of its leading brands was the second most important imported cigarette, and it was the leading imported brand in Japan.

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Chart XII
MAJOR BUSINESS GROUPS OF AMERICAN BRANDS' Inc.



Source: Compiled from data in S.E.C. 10-K Form, 1974.

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Acquisition of Gallaher

124. In the ten years 1965 - 1975 it spent \$1 billion on acquisitions. In February 1975, the remaining 20 per cent of outstanding ordinary shares of Gallaher Ltd., a United Kingdom corporation, together with all the other outstanding preference shares, were taken over by American Brands for \$64 million, transforming it into a wholly-owned subsidiary. Gallaher remains the most crucial external unit of American Brands. It is the 27th largest United Kingdom industrial company, ^{64/} engaged basically in the manufacture and sale of tobacco products in that country and elsewhere. Its other product lines are engineering, optical goods, wholesaling and retailing. Operating income from tobacco business in the United Kingdom now accounts for more than half of Gallaher's profits. ^{65/} It is the second largest manufacturer of tobacco products trading in the United Kingdom.

125. Tobacco enterprises: In the United Kingdom Gallaher holds about a quarter of the cigarette market. Its major brands there are Benson and Hedges, Special Filter, Park Drive, Kensitas, Silk Cut, Sovereign, Senior Service and Cadets, although trademark rights to some of these brands are claimed by other members of the oligopoly. Gallaher has developed rapidly its wholesale and retail tobacco links. In contrast to Imperial, which has now moved away from the system of direct accounts with retailers (because of its sheer size, and is now marketing again through wholesalers, many of whom it controls), Gallaher still uses the system of "direct accounts" with retailers.

126. Non-tobacco enterprises: Operating income of the non-tobacco companies in 1975 included: engineering (Mono Pumps, Saunders Valve and F.I.P. in Italy), £5,287,000; optical business (Dollond and Aitchison) £23,774,000; wholesaling, £926,000; and retailing, £1,433,000. The last figure reflects Gallaher's ownership of Forbuoys, Ltd., a chain of 375 stores specializing in retail operations of newspapers, stationery, candy and tobacco products and other wholesale and retail activities under various names; 15 shops were added in 1975.

Operating results

127. Total net sales of American Brands rose from \$2.7 billion in 1970 to \$4.1 billion in 1975. An analysis by product line is given in table 17.

^{64/} The Times 1000, op.cit.

^{65/} American Brands, Annual Report, 1975 - SEC Form 10-K 1974.

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Table 17
American Brands: Net sales by product line, 1970 and 1975
(\\$ million)

	1970	Per cent	1975	Per cent
Tobacco products				
International sales	1 023.3	38.4	1 565.3	38.6
Domestic sales	1 029.0	38.5	1 051.5	25.9
Food products	351.1	13.1	457.6	11.3
Wholesaling	20.7	0.8	133.5	4.5
Hardware	27.8	1.0	160.6	4.0
Retailing	-	-	150.1	3.7
Distilled beverages	155.7	5.1	146.5	3.6
Office services and supplies	48.2	1.8	98.7	2.4
Engineering	17.5	0.7	97.8	2.4
Toiletries	-	-	65.5	1.6
Optical goods and services	3.4	0.1	52.3	1.3
Other	28.3	1.0	49.3	1.2
<u>Minus intra-company sales</u>			(21.4)	(0.5)
Total	2 674.5	100.0	4 055.3	100.0

Source: SEC Form 10-K, 1974 and 1975.

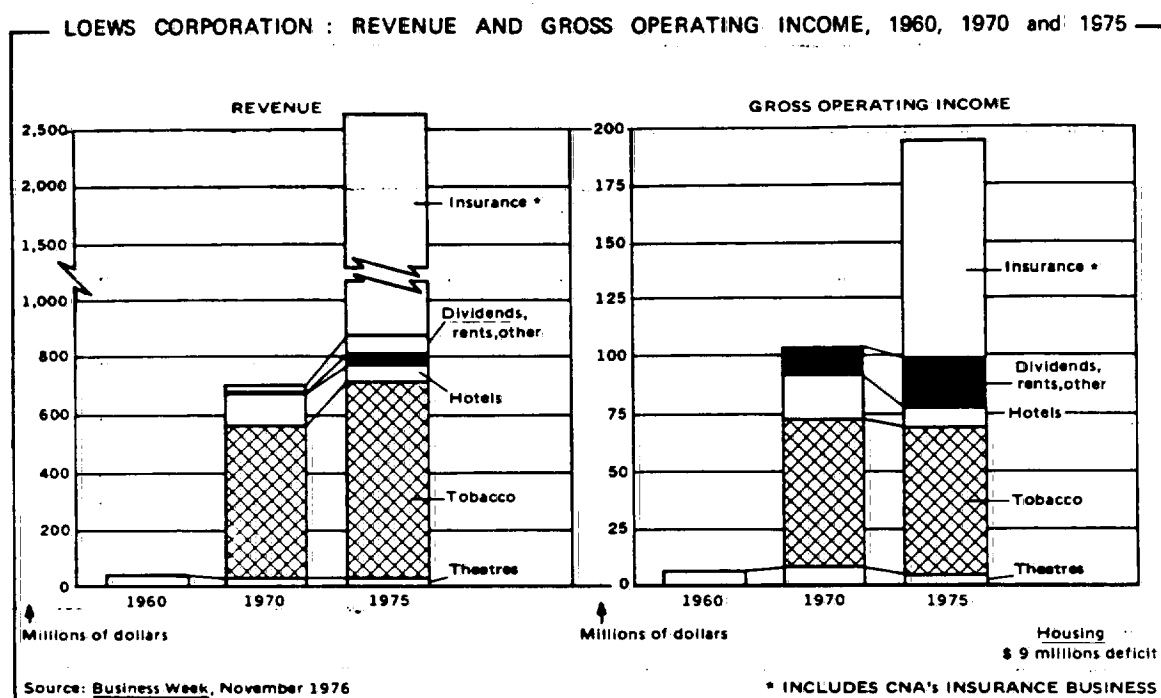
128. The table shows that tobacco accounted for 64.5 per cent of total net sales in 1975, with the domestic market having 25.9 per cent, a sharp dip from 38.5 per cent for 1970. The very high share of international net sales for tobacco products (38.6 per cent in 1975) stems from the importance of Gallaher (26 per cent) in the United Kingdom. Through the global takeover of Gallaher, American Brands also acquired Theodorus Niemeyer, its Dutch subsidiary, which in 1975 held 12 per cent of the Netherlands market.

7. Loews Corporation

129. The rapid growth and diversification of Loews over the last two decades (see chart XIII) reveals both the stability and the instability of the oligopolistic structure of the TTCs and the vulnerability to takeover of certain traditional firms. The annexation of Lorillard, one of the oldest tobacco companies in the United States, and one of the successor companies to the ATC, reveals how Loews itself was transformed from a small theatre company into a minor TTC. The cost in excess of net assets acquired related to this acquisition originally amounted to around \$129 million before deduction of estimated tax benefits. Although the international tobacco operations of Loews have now been taken over by BAT at a cost of \$32 million, the company continues to grow and diversify. The Loews holding company is a public corporation in which a single family holds almost one quarter of the total stock. The origin goes back to 1959, when the Tisch brothers gained control of Loews from Metro Goldwyn-Mayer, to become a diversified company as illustrated by its gross revenues and pre-tax operating income (chart XIII).

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Chart XIII



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130. Cross-subsidization, linked to massive capital infusions, has drastically modified its structure. Its essential activities include insurance (property, casualty and life); financial services and asset management; production and sale of tobacco products; operation of 102 cinemas; development of residential real estates and related projects and investments in the iron and steel industry. The General Finance Corporation ranks among the 20 largest independent finance companies in the United States and is engaged in three specific activities: personal loans, automobile financing, and insurance. These agencies of finance capital have been reinforced by the acquisition of CNA's insurance and non-insurance operations. The CNA Financial Corporation is basically involved in providing investment advisory services to mutual funds.

131. The Lorillard Corporation was acquired in November 1968 and was subsequently transformed into a wholly-owned subsidiary of the company's subsidiary, Loews Theatres, Inc. The Lorillard corporation was merged into Loews in July 1969 and its operations have been conducted as a division of that corporation. One of the conspicuous features of its marketing organization is its concentration on exports, which made it an extremely interesting case for acquisition by BAT. About 18 per cent of its total volume of sales in 1975 were exported by Lorillard directly and through wholly-owned subsidiaries, which included a domestic international sales corporation, a western hemisphere trade corporation and a foreign subsidiary. The significance of foreign sales is illustrated by the fact that about 29 per cent of net earnings in 1975 were due to exports, foreign licences and other non-United States operations. Licence agreements have been made with 19 cigarette manufacturers in foreign countries on a royalty basis and the corporation also produces a number of Lorillard brands for markets in certain African countries and about seven European countries. Unlike other American companies, Lorillard has no overseas manufacturing plants and thus its marketing is geared strongly to exports, which accounted for one-fifth of United States cigarette exports in 1974.

132. Lorillard's export drive was made directly by Lorillard itself and through three wholly-owned subsidiaries: Lorillard International Sales Corporation, which services marketing centres on a worldwide basis; P. Lorillard Pan American, Inc., servicing marketing regions in Canada, Puerto Rico, Central and South America; P. Lorillard International S.A., Zug, Switzerland, largely responsible for marketing operations in certain areas of Europe, the Middle East and Africa; P. Lorillard, a Luxembourg corporation, (jointly owned by HVL Participations and P. Lorillard International S.A.).

133. As with other producers, there is no clear-cut demarcation between wholesaling and retailing. Lorillard markets its product lines by direct sales to distributors, who in turn supply retail outlets. Products are also marketed directly through chain store organizations and vending machine operations. In order to streamline and rationalize marketing operations tobacco products are stocked in public warehouses.

134. Lorillard's International Division covers four operating regions, and there is also an overseas division, each being a separate profit centre. Its basic marketing approach consists of two strategies: quality and presentation of the

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product and advertising, with the United States manufactured product being the benchmark for all their cigarettes produced abroad, a marketing strategy also pursued by other tobacco transnationals. As with other transnationals, earnings from foreign operations are important, with approximately 29 per cent of net earnings attributable to exports, foreign licensing and other operations in 1975.

135. Tobacco manufacturing for Lorillard in 1975 was the largest segment of the company's operations, representing 43.2 per cent of revenues (less taxes) and 42 per cent of operating income.

8. Gulf and Western

136. This corporation exemplifies the growth of conglomerate power. In approximately less than two decades it has expanded from a single product company with an annual sales volume of \$8 million into a \$3.4 billion TTC with 110,000 employees.

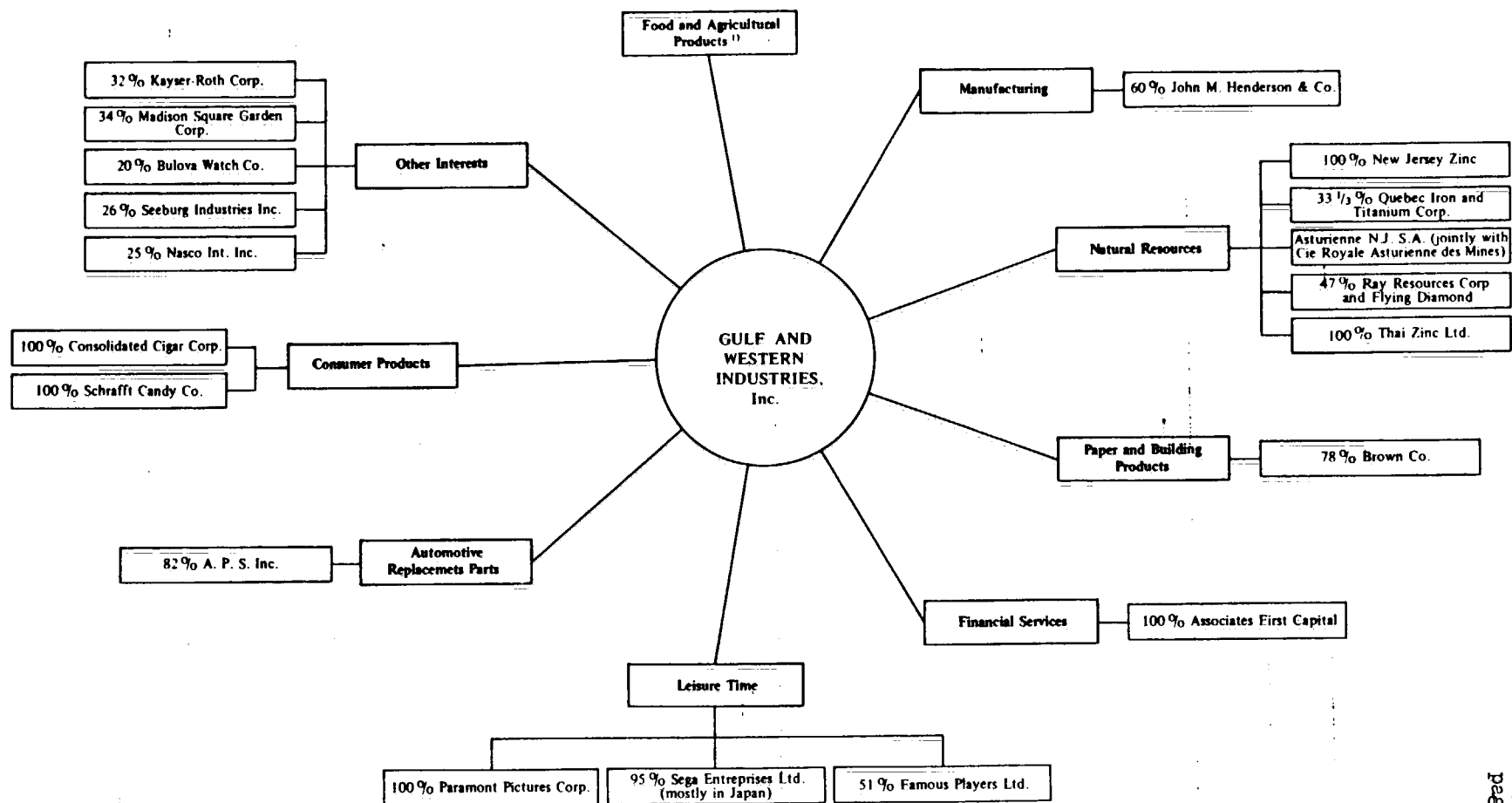
137. Its organizational chart (see chart XIV) gives an incomplete description of the components of its major groups, which include: manufacturing of a wide range of industrial products, with production facilities in the United States and 13 foreign countries; a consumer and agricultural products group in which is located the Consolidated Cigar Corporation, engaged in the manufacture and sale of cigars, smoking tobacco and smokers' accessories; the leisure time group, which includes, among others, Madison Square Garden Corporation, ^{66/} the Paramount Pictures Corporation and Simon and Schuster, one of the largest book publishers in the United States; the natural resources and mining group, with interests in the United States and abroad covering zinc and coal mines, titanium, iron ore, crude oil, natural gas and coal; the apparel products group, producing and marketing a wide variety of textile apparel as well as shoes, and specialized textile products; the paper and binding products group; the automotive replacement parts group; the financial services group, engaged in direct instalment loans, sales financing, wholesale financing, underwriting, casualty and life insurance.

138. Table 18 below indicates the shares of major groups in total revenues and operating income for the fiscal year 1976.

^{66/} The eight-year campaign to absorb the Madison Square Garden Corporation was successfully concluded in 1977. The Garden's estimated revenues of \$180 million for the fiscal year 1976/77 were 5.3 per cent of Gulf and Western's yearly revenue.

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Chart XIV
Major Business Groups of Gulf and Western Industries, Inc.



Note : 1) Food and Agricultural Products : — Product lines : raw and refined sugar, molasses, furfural, etc..., citrus fruit, tomatoes, etc...
 — Dominican Republic : 108,135 hectares land in 1974 produced 405,000 tons of 96° sugar.
 — Florida : 57,510 hectares land in 1974 produced 105,600 tons of 96° sugar.
 — Paraguay : 60,750 hectares land suitable for farming and cattle raising.

Source : Compiled from data in S.E.C. 10-K, form, 1974.

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Table 18
Gulf and Western
Revenues and operating income - Year ending 31 July 1976
(per cent)

Group	Revenues	Operating Income
Manufacturing	25	30
Financial services ^{a/}	16	5
Apparel products	15	9
Paper and building products	11	8
Leisure time	11	13
Consumer and agricultural products	11	25
Automotive replacement parts	7	6
Natural resources	<u>4</u>	<u>12</u>
	100	108
Corporate expenses and intercompany items	-	(8)
	<u>—</u>	<u>—</u>
Total	<u>100</u>	<u>100</u>

Source: SEC Form 10-K, 1976.

^{a/} For the purpose of the percentage calculations, revenues of the Financial services group, not consolidated in G and W's financial statements, have been included.

139. Although no officially published data are available to elucidate the product components of the consumer and agricultural products group, it has been estimated that its cigar sales, pipe tobacco, tobacco pouches and other smoking accessories account for a mere 5 per cent of total sales, although the Consolidated Cigar Corporation had around 30 per cent of the United States domestic market in 1975. One of the world's leading cigar producers, Consolidated, has subsidiaries in the Dominican Republic, the Canary Islands and the Netherlands. It has now globalized its marketing operations that combine the sale of its Spanish, Dutch and American cigars in about 100 countries. ^{67/}

140. The strength of the diversification movement of Gulf and Western is well revealed in agriculture, where it is one of the largest corporate land-owners in the Americas and owns slightly more than 11 per cent of the arable land area in the Dominican Republic. ^{68/} Table 19 below indicates the extent of its holdings.

^{67/} Recent purchase of an interest in two leading brands (H. Upmann and Monte Christo) have strengthened its market hold.

^{68/} Calculated from basic data on arable land in FAO, Production Yearbook and G and W's disclosures to the SEC.

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Table 19
Gulf and Western: Land holdings

Region	Acres	Land use pattern
<u>Dominican Republic</u>	<u>270 000</u>	
of which:	107 000	sugar cane
	117 000	livestock pasture
	15 000	related operations
	14 000	resort and tourist activities
	3 000	citrus, vegetable and tobacco
	14 000	unused
<u>Paraguay</u>	<u>135 000</u>	sugar and cattle raising
<u>Bahamas</u>	<u>2 500</u>	vegetables
<u>Florida</u>	<u>164 300</u>	
of which:	83 500	sugar
	12 000	citrus
	38 400	beef cattle
	5 000	vegetable and unused
	<u>25 400^{a/}</u>	beef cattle and vegetables
<u>Connecticut</u>	<u>2 900</u>	wrapper tobacco
of which:	720 ^{a/}	tobacco
Total	<u>572 700</u>	

Source: SEC Form 10-K, 1975.

^{a/} Leased land.

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Chapter III

PRICING AND MARKETING OF CIGARETTES

141. The present chapter deals with the scope of pricing and marketing of cigarettes, which account for more than 90 per cent of world leaf tobacco output. It analyses the mechanisms of cigarette wholesaling and retailing in two centres of TTC power, viz. the United Kingdom and the United States. This choice has been dictated not only by data availability but also because it is in these two countries that the extent of mounting economic concentration in the marketing and distribution of tobacco manufactured products at the wholesale and retail levels can be clearly perceived. Increasingly, the divisions separating wholesaling and retailing agencies are being removed.

A. Case studies

1. United Kingdom

Wholesale structure

142. In the United Kingdom, where a high degree of economic concentration of tobacco manufacturing prevails (with three firms - Imperial, Gallaher and Carreras/Rothmans - accounting for 96 per cent of total output), the structure of wholesaling and retailing over the last 80 years also exhibits a similar incidence of concentration, with manufacturers extending their control into the marketing and distribution chains. Wholesaling is in part combined with manufacturing, in part with retailing (e.g. chain stores) and, in part, conducted by specialized wholesale firms. BAT, the Imperial Group and the Burnah Oil Co. (a wholly owned subsidiary of R.J. Reynolds) are among the 50 largest retailers in the United Kingdom). Around two-thirds of the United Kingdom cigarette trade passes through wholesalers, the remainder being traded directly by the manufacturers ('direct accounts'). Since the 1961 United Kingdom Monopolies Commission report on the supply of cigarettes and tobacco machinery was written the structure has become even more consolidated, particularly because of the impact of cross-subsidization and the massive incursion of the TTCs into retailing and distribution.

143. Three TTCs dominate the market and fix prices for almost all their tobacco products at all stages of distribution. Pricing policy to distributors is a function of the volume of turnover, irrespective of whether the buyer is a wholesaler or a retailer. While historically the trend has been for wholesalers and retailers to be taken over by the manufacturer, there are signs of a reverse move from retailer back to wholesaler. Over the last several decades the number of tobacco wholesalers has shrunk to around 240, many of whom have already been taken over by the prevailing oligopoly.

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Retail structure

144. At present there are around 350,000 retail outlets for tobacco products in the United Kingdom. This includes the large number of retailers who deal in tobacco products as a side line to their main business (see table 20). In the absence of any system of retail licensing for tobacco, any trader who wishes to sell tobacco is free to do so. There are five major categories of outlets:

- (a) Specialist tobacconists, i.e. those whose business is confined to the sale of tobacco products; they represent a small and dwindling number, due to the squeeze of profit margins.
- (b) A large number of confectionery, tobacconist and newsagent (CTN) traders, who occupy an important and fairly stable role in retail marketing.
- (c) Supermarkets and grocers, who sell tobacco products as a side line to their main activities and have increased their share of the market substantially in the past decade.
- (d) Traders who sell alcoholic drinks by 'off-licence', and through licensed premises for the sale of alcohol.
- (e) Vending machine operators, who sell their products through machines installed in restaurants, hotels, clubs, factories, etc. Sales through vending machines currently account for 10 per cent of the United Kingdom market, compared with around 50 per cent in the Federal Republic of Germany and 30 per cent in the United States. The United Kingdom figure is expected to rise to 20 per cent by 1980.

Table 20
United Kingdom retail outlets for cigarettes
(per cent of total sales)

Outlet	1968-1969	1970	1975
Co-operatives	7	8	6
Multiples/supermarkets	2	10	11
Other independents	13	12	10
Confectioners/newsagents/ tobacconists and tobacco specialists	35	35	38
Licensed premises	14	10	15
Miscellaneous (cinemas, garages, vending machines)	29	25	20
	<u>100</u>	<u>100</u>	<u>100</u>

Source: Trade sources.

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145. The tobacco oligopoly maintains 'direct accounts' with retailers who are able to purchase in bulk on the basis of a four-weekly cycle of ordering. The alternative source of supply is through wholesalers, who are in a position to offer the smaller retailers margins which compare favourably with those of the manufacturers.

The pricing and marketing policy of Imperial Tobacco Company

146. Each branch of Imperial is considered a separate trading entity, with its own sales force and customers' accounts. The branches operate within a general policy framework aimed at maximizing the profits of the company globally at any point of time. While each branch has its own management, the Executive Committee of Imperial is the final authority on matters relating to major capital outlays, advertising, introduction of new brands, modifications in price or specifications of existing brands. Major decisions on technological innovations are also centralized.

Introduction of new brands

147. Each branch formulates its own price list, but all accord the same terms to distributors. While introduction of new brands and pricing policy are nominally within the prerogative of the branches, the importance of such a vital decision as the introduction of a new brand is determined by the Executive Committee as a function of direct costs, potential marketability margins, advertising budgets and the intensity of market competition. The importance of such a major decision can be gauged by the fact that, since 1902, Imperial's five leading brands have accounted for more than four-fifths of total sales. The dominance of a handful of brands has always been a constant feature of the TTCs' policy.

Marketing network

148. From its inception, Imperial moved into the wholesale and retail network to acquire a greater command of pricing policy, and, in their own words, "to stop competing manufacturing allied with cut-price retailing".^{69/} This led to a series of takeovers ^{70/} until by the end of the 1930s Imperial had acquired a key role in the tobacco distributing trade.

149. Each branch of Imperial has its own decentralized distribution network and sales force, a system also used by the other members of the tobacco oligopoly, i.e., Gallaher and Rothmans. For the bulk of its products Imperial fixes selling prices at all stages of supply, and the minimum prices at which wholesalers may resell to retailers are specified in price lists. While the company's recommended retail price has historically been a price determinant,

^{69/} Monopolies Commission, Report on the supply of cigarettes and tobacco machinery, London, HMSO, 1961, P. 50.

^{70/} -Salmon and Gluckstein, with 140 retail enterprises; Bewley and Company, with 13 high-class retail tobacconist shops in London; Findlays and Sinclair, through which it bought out 14 other wholesale tobacconists.

the system has not been entirely successful, since cigarettes marketed in the United Kingdom are sold below the market price as "loss leaders", notably in the supermarket chains and discount houses.

150. Distributors' margins have remained more or less the same since the Monopolies Commission report was written. A retailer purchasing direct from Imperial earns a gross margin of 9.5-11.5 per cent on the sales price of cigarettes; a wholesaler buying direct on "best possible terms" earns from 1.75 per cent to 3.25 per cent, while for a retailer buying from a wholesaler the margin is from 7.5 per cent to 9.5 per cent. These rates are applicable to the industry as a whole.

Imperial as price leader

151. While Imperial maintained that there was no price collusion between producers, prices charged by the tobacco oligopoly for a given grade and type of cigarette were similar and often identical. "Imperial, the acknowledged price leader in the industry, has sometimes indicated the prices it intended to charge", concluded the Monopolies Commission. ^{71/} Its acknowledged price leadership is still to be reckoned with in the industry. Many, if not most, members of the wholesale and retail trade have now come to regard some form of administered price or price maintenance as desirable, since it can be used as a defensive weapon against those sellers who use tobacco products essentially as 'loss leaders', thus undermining the recommended producers' list price.

152. Among the marketing devices deployed to maintain Imperial's pre-eminence as price leader there are two which are still operational after several decades: the bonus system and free 'window dressing' of retailers. To qualify for the bonus, a distributor must be accepted as a direct customer of Imperial and enter into a written agreement. Under the scheme, the distributor undertakes to stock Imperial's bonus-bearing goods and advertise them prominently. From such an arrangement, the distributor gets a cash bonus related to the value of his yearly sales.

153. Advertising through 'window dressing' is related to the bonus system. At present, there are more than 35,000 distributors' windows that are 'dressed' free of charge. One of the provisions which, it appears, has not changed since the mid-1950s is that the company reserves for itself 75 per cent of the total display available for tobacco goods, including all centre displays. While 'window dressing' is not mandatory under the bonus system it is, none the less, an inducement to join the system, which is emulated throughout the United Kingdom by Imperial's two other major competitors, although there are some variations between them.

^{71/} Op. cit., p. 74.

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154. In its analysis of Imperial's pricing policies, the Monopolies Commission noted that all manufacturers follow the rule of price maintenance in prescribing the minimum retail and intermediate prices of practically all cigarettes and tobacco they sell, and the conditions of sale. While there may have been changes since the mid-1950s related to 'loss leaders' and breakaway pricing policy, there have been only minimal changes in the operational mechanism, since distributors cannot buy from manufacturers, except on the conditions which each distributor concerned accepts as a term of purchase.

155. The manufacturer's net realized price varies according to the customer's preferential status and his adherence to the bonus system, but there is no great price variation from product to product, or from manufacturer to manufacturer, although there are considerable profit variations within these same established price ranges.

156. The pricing mechanism of the price leader is not based on a method calculated to yield a uniform profit rate on all brands. One of the techniques of pricing policy is to take a loss on one brand over a certain period of time, if it be judged necessary to build or restore its market share. Moreover, a small shift in cost may have an impact on profits, since the ex-factory price is a low proportion of the final retail price. Brands selling at the same unit price are expected, in principle, to yield the same gross profits per unit. Higher-priced brands, because of their heavier advertising costs, are expected to yield a higher rate of gross profit.

157. For the industry as a whole, and not merely for Imperial, the continuous review of brand costs, which the Monopolies Commission pinpointed, provides the general picture of cost trends and a benchmark for introducing new brands (and dispensing with old ones), as well as for deciding when costs and price structures should be altered. In addition, pricing policy will have to fit into a much larger framework now that the United Kingdom is a member of EEC. It will need to look at global trends of costs and profits; the nature of competition both in the national and in the world market; the effect of price changes on demand and present tax policies.

2. United States

Wholesale and retail structure

158. Wholesale and retail tobacco trade concentration in the United States since 1890 reveals much the same traits as in the United Kingdom, but to a much greater extent specialized **independent** tobacconists have disappeared (almost completely) or been taken over, giving way to the large-scale franchise outlets and institutional sellers, such as supermarkets and vending machine operators. Supermarkets now account for 38 - 40 per cent of total

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cigarette sales. The combined sales of supermarkets and vending machines account for 68 - 70 per cent of total sales. 72/

159. The present extent of wholesale concentration is well exhibited in the United States, where in 1975 there were some 2,000 primary tobacco wholesalers and 1.4 million retail outlets for an industry with gross sales of over \$12 billion. (Details on the wholesale tobacco in the United States in 1975 are shown in annex I, table II).

160. By the early 1980s, due to the greater volume and the technology of highly computerized market operations (and other social forces), the number of wholesalers will have been reduced to 1,000. 73/ Impressive as such a number is, it does not reflect present levels of effective concentration at the wholesaling level: a mere 5 per cent of primary wholesalers are now responsible for more than half of total wholesale marketing transactions. 74/ The franchise pact described below is the link between the oligopoly and the wholesaler.

72/ Chain Store Age, February 1975. Entry into the vending machine business is not limited to the American members of the oligopoly; it has taken place also in the United Kingdom and elsewhere. In 1974, Gallaher penetrated the business through takeovers by two of its subsidiaries, the Mayfair Cigarette Co. Ltd. and Standing Tobacco Co. At the end of 1974, the company's vending interests became the Mayfair Cigarette Vending Co., which is a subsidiary of Gallaher's retailing arm, the Warriner and Mason holding company. In the same year, Gallaher and Rothmans also bought up three cigarette vending companies. To beat off the takeover offensive, 15 large and medium-sized independent cigarette vending companies were welded into the Automated Cigarette Marketing Ltd. in 1974, with Imperial's benediction. (Source: Economist Intelligence Unit, London, Retail Business, Special Report No. 2). R.J. Reynolds is now selling its own vending machines "at cost" on a convenient payment schedule, although it is claimed that vendors are not limited to stocking only Reynolds' brands. (Advertising Age, 22 March 1976).

73/ Information supplied to the UNCTAD secretariat by the managing Director of the National Association of Tobacco Distributors.

74/ Commenting on the thrust toward fewer and large wholesalers, one of the largest wholesalers in the United States declared that "a reason for this is that the smaller towns are just now getting chains like K-Mart. And, according to a story heard, when a large chain store opens in a community, 35 small stores go out of business. If this is true, or anywhere near true, the spread of the chains to the rural areas will mean fewer and fewer stores, and this must reflect itself at the wholesale level. It's my opinion that the smaller distributors, the ones doing less than \$3-4 million a year, are going to be eaten up unless they make a connexion with a larger distributor. With freight shipments getting larger and reducing inventory turnover, the smaller distributor won't be able to take the strain. Certainly not when his customer count is decimated by the spread of the chains. We will have less distributors in the country in a few years". (Interview with Mr. Jay Martin, owner of the multi-million dollar Capital Cigar and Tobacco Co. in Maryland, United States Tobacco Journal, 16 September 1976).

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The franchise pact

161. While the marketing scope of the franchise pact will obviously vary among members of the oligopoly, there are certain underlying common features defining the respective role of the wholesaler and the manufacturer. Schematically, the wholesaler, through his franchise, is primarily concerned with distribution of specific brands within his geographic zone; where brand weaknesses have arisen, the manufacturer's goal is to ensure promotional measures to boost sales. Purchase materials are affixed periodically; the wholesaler submits an inventory setting a time-limit (week/month) on the manufacturer's right to check proper rotation of merchandise and to consult on mutual requirements. Subject to clearance from the wholesaler's sales department, the manufacturer's representative has the right to work either alone or in conjunction with wholesaler's representatives at specified intervals of time, and on selected sales territories, making available to the manufacturer an annual financial statement. The credit terms agreed upon prior to the franchise are subject to periodic revision by the manufacturer. Should the manufacturer, within the specified demarcated sales territory, wish to sell to other retail and institutional buyers, he may, in certain cases, give the wholesaler a minimum percentage cut on the retail and institutional outlet gross sales price.

Sales distribution network

162. There are no variations in sales techniques, however, between the members of the tobacco oligopoly, since all market the final product through distributors, chain stores and other large retail outlets. Several of the bigger vending machine operators purchase their requirements directly. On the other hand, manufacturers themselves are increasingly entering into the cigarette vending sector by buying up vending machine companies.

163. An analysis of the sales distribution network for cigarettes in the United States (see chart XV) reveals that cigarette manufacturers sell 56 per cent of their output to tobacco wholesalers, 23 per cent to grocery wholesalers and 10 per cent to chain food stores. The remainder is sold to vending machine operators, military institutions and chain drug stores. The 56 per cent supplied to tobacco wholesalers is made up of 20 per cent which wholesalers pass on to food stores, 13 per cent to drug stores, 11 per cent to miscellaneous retail outlets and 12 per cent to vending machines.

164. Although they account only for about 6-7 per cent of total tobacco sales, "convenience stores" (included in "miscellaneous retail outlets" in chart XV) provide an interesting insight into the mechanism of marketing.

165. One of the decisive elements in merchandising profitability, as has already been stressed, is the rate of turnover, and in this respect manufactured tobacco products are at the top of the "turn".

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Chart XV

UNITED STATES TOBACCO OUTLETS

1976

Manufacturers' Cigarette Sales by Distribution Channel (% of Total)		Retail Cigarette Sales By Type of Outlet (% of Total)	
Chain Food Stores (254 Cos.)	10 %	20 %	Food Stores 53 % ^{a/} (4,563 Cos.) (232,000 Stores)
Grocery Whlsrs. (942 Cos.)	23 %	13 %	Drug Stores 15 % ^{a/} (2,818 Cos.) (48,000 Stores)
Chain Drug Stores (87 Cos.)	2 %	11 %	Misc. Retail Outlets 11 % (77,000)
Tobacco Whlsrs. (1,875 Cos.)	56 %	12 %	Vending Machines 16 % (6,000 Cos.) (900,000 Machines)
Vending (444 Cos.)	4 %		Military Instit. 5 % (3,000)
Military Instit. (1,501 Instit.)	5 %		
(5,103)	100 %		(14,882) 100 %

Source : Trade sources.

^{a/} Chain Store Ages estimates.

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Table 21
Gross profits and sales of vending machines in
the United States, 1972 and 1974

Commodity	Share of total retail sales (Per cent)		Average sales per machine (\$)	
	1972	1974	1972	1974
Cigarettes	28.8	25.4	2 095	2 319
Hot cup beverages	18.1	17.1	2 938	3 151
Sandwiches, salads, pastry, etc.	12.7	14.0	2 071	2 563
Candy, nuts, gum and biscuits (5 cents or more)	10.9	10.6	1 054	1 298
Cold cup beverages	10.3	10.1	2 162	2 537
Milk	5.1	5.3	2 112	2 613
Miscellaneous vending machine products	2.6	2.8	1 863	830
Hot food	2.4	2.7	1 639	1 962
Bottled and canned drinks	1.5	2.6	1 855	2 720
Ice cream	0.6	0.6	730	978
Total	93.0	91.0	1 935	2 186
Sales other than through machines	7.0	9.0		
Total	100.0	100.0		

Source: Data supplied by the National Automatic Merchandising Association and compiled by Price Waterhouse and Company.

Cigarettes in United States supermarkets "turn" approximately 36 times per year, since the entire cigarette department of a supermarket sells out its stock on average in about 10.5 days. For convenience stores, as noted above, the "turn" is only about seven days.

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166. The marketing corollary of a high rate of "turn" is best indicated by an arithmetic example. On the assumption (which conforms to the trade practice) that the tobacco distributor grants the retailer 10 days for payment at a 3 per cent interest rate, and that all the cigarettes are sold within seven days, there still remain three days during which the retailer can use the credit as he sees fit. It should be borne in mind, moreover, that the convenience store operator charges retail but buys at wholesale prices. In considering this roughly 25 per cent margin, the analysis of one convenience store is highly relevant: "If we choose to use a 25 per cent margin, then after four 'turns' at 25 per cent we are now working on 'their' money. In our business, with this exceedingly high rate of 'turn', our 're-invested' dollar works hardest for us and produces more 'money' to 're-invest' in paying for other c-store items than in any other product category". 75/

167. Margins on vending machine operations are also of the order of 25 per cent. While table 21 shows that one half of vended product lines yield higher average sales per machine than cigarettes, the trade margin on cigarettes is much higher than on any other product, which accounts for tobacco's constituting the largest share of sales from vending machines.

Global margins of the United States cigarette industry

168. The breakdown by major economic agents in chart XVI indicates returns to tobacco growers in 1972 of 5.7 per cent of total retail value; 11.5 per cent to manufacturers; 2.9 per cent to employees; 15.7 per cent to owners of business and Government; 41.2 per cent to the federal and state governments (through taxation); and 23 per cent for trade margins. Further details on the cost items of retail value are shown in table 22. 76/

75/ Convention Store Industry, Seventh Annual Report, New York 1976.

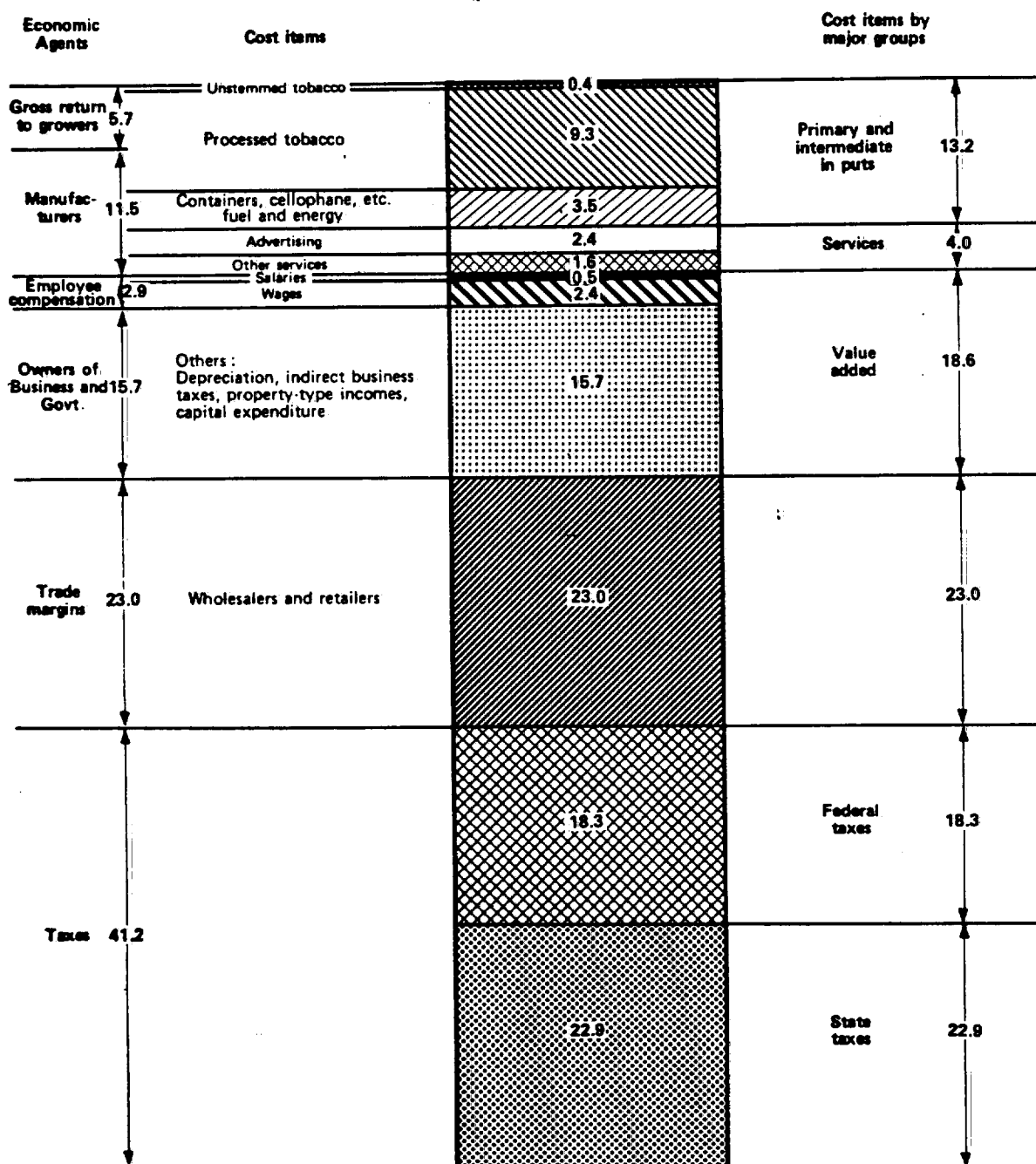
76/ Calculations of cost estimates were based on the 1972 Census of Manufactures, with the exception of amounts for total services and unstemmed tobacco (used in processing tobacco), which were estimated from the 1967 input-output tables, with adjustments to 1972. Advertising outlays were extracted from trade sources. (For details of sources, see table 22).

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Chart XVI

US Cigarette Industry : Cost items of Retail Value, 1972

(per cent)



Sources: As for table 22.

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Table 22

United States cigarette industry: Cost items of
retail value, 1972 a/

Cost item	Retail value (\$ million)	Per cent of retail value
1. <u>Value of production</u> (ex-factory)	4 212	35.8
<u>Primary and intermediate inputs</u>		
Unstemmed leaf tobacco (incl. unpackaged green tobacco)	(49)	(0.4)
Processed tobacco b/	(1 096)	(9.3)
Containers, cellophane, etc.	(398)	(3.4)
Fuel and electric energy	(11)	(0.1)
<u>Cost of services</u>	(470)	(4.0)
Advertising	(280)	(2.4)
<u>Value added</u>	(2 188)	(18.6)
Salaries	(58)	(0.5)
Wages	(287)	(2.4)
Other c/	(1 843)	(15.7)
2. <u>Trade margins</u>	2 707	23.0
3. <u>Federal taxes</u>	2 151	18.3
4. <u>State taxes</u>	2 695	22.9
5. <u>Total retail value</u>	<u>11 765</u>	<u>100.0</u>

Sources: Department of Commerce, 1972 Census of Manufactures; data provided by the Dept. of Internal Revenue; Dept. of Commerce, Input-Output Structure of the US Economy, 1967, Washington D., 1974; information provided by the National Association of Tobacco Distributors; Tobacco Reporter, August 1974, and other trade sources.

- a/ 1972 is the latest year for which there is a census of manufactures.
b/ Of which \$625 million (5.3 per cent) goes to tobacco growers.
c/ Includes depreciation, indirect business taxes, property type incomes, capital expenditure (\$102 million).

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169. Primary and intermediate inputs shown in table 21 originate in 56 industrial groups and subgroups. Except for tobacco and coal, the majority of transactions stem from "manufacturing", such as the tobacco stemming and redrying industry and the container, paper and printing industries. Although direct input of tobacco in the form of unstemmed leaf tobacco is minimal (only 0.4 per cent of total retail value), it should be borne in mind that the stemming and redrying tobacco industry bought an estimated \$625 million (5.3 per cent of retail value) from tobacco growers for processing.

170. Over the last decade, the upsurge in tobacco taxes at all levels has increased, and although not the single determinant as alleged by TTC spokesmen, they do, to a certain extent, have an influence on pricing policy. The United States Department of Commerce data indicate that of the \$80 billion collected in 1975 by the individual states, 77/ taxes on tobacco products were some \$3.3 billion, or 4 per cent. Whereas in 1956 total tax revenue from tobacco products in the United States (\$513 million) was smaller than from alcoholic beverages (\$541 million), by 1975 tobacco tax revenue was almost double that from alcoholic beverages. Apart from fuels (\$8.3 billion), no other tax has such a high revenue yield as tobacco, which helps to explain the political leverage of the tobacco lobby.

The bootleg revolution 78/

171. Table 23 indicates the price spread between a Marlboro brand and the most popular brand in different cities. Price spreads are accounted for not only by traditional costs, but also by bootleg markups and markdowns, which have now become a significant element in the total marketing picture. About 30 per cent of all cigarettes entering international trade are of bootleg origin, and in Italy bootleg cigarettes are estimated to comprise 35-40 per cent of total sales. Of an estimated 600 million Pakistani cigarettes consumed in Afghanistan, around 65 per cent are contraband. 79/

172. In the United States the huge tax differential (2 cents per pack in North Carolina as compared with 26 cents in New York City) has turned the bootleg cigarette into the second (after narcotics) most profitable contraband marketed product in the country. For the United States as a whole, bootleg marketing now accounts for around 25-30 per cent of total sales; for New York City the proportion is as high as 50 per cent, involving an annual loss of state tax revenue of around \$130 million.

173. The marketing and pricing rationale behind this drive for a commodity that has minor breakage or spoilage problems is the tax differential and high profit expectations. In New York City, which has the highest cigarette prices in the

77/ The figure of \$80 billion (56.8 per cent of total state taxes) does not include municipal, city and urban taxes, which accounted for the remaining 43.2 per cent of state taxes.

78/ See Elimination of Cigarette Racketeering, Hearings before Subcommittee No. 1 of the Committee on the Judiciary, House of Representatives 92nd Congress, 2nd Session, Washington DC, 28 September 1972.

79/ Tobacco Reporter, February 1977.

Table 23
Cigarette prices:^{a/} International price range,
May/June 1976

TD/B/C.1/205
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City	"Marlboro" Zürich Brand index=100 \$	Most popular Zürich Local Brand index =100 \$	Price difference	As per cent of local brand
Amsterdam	0.92 121	0.83 129	-0.09	11
Athens	1.25 164	0.42 65	-0.83	198
Bogotá	0.44 57	0.13 21	-0.31	238
Brussels	0.74 97	0.77 119	0.03	4
Buenos Aires	0.42 55	0.42 66	-	0
Caracas	0.49 65	0.29 46	-0.20	69
Chicago	0.60 78	0.60 93	-	0
Copenhagen	1.65 216	1.65 256	-	0
Dublin	0.82 107	0.72 113	-0.10	14
Düsseldorf	0.94 123	0.90 139	-0.04	4
Geneva	0.76 100	0.64 100	-0.12	19
Helsinki	1.07 139	1.07 166	-	0
Hong Kong	0.38 49	0.38 59	-	0
Istanbul	0.64 83	0.47 74	-0.17	36
Johannesburg	- b/ -	0.43 67	-	-
Lisbon	1.18 155	0.52 81	-0.66	127
London	0.85 112	0.78 121	-0.07	9
Los Angeles	0.47 62	0.47 73	-	0
Luxembourg	0.64 84	0.49 76	-0.15	31
Madrid	0.87 114	0.22 34	-0.65	295
Manilla	0.34 44	0.31 48	-0.03	10
Mexico City	0.53 69	0.48 75	-0.05	10
Milan	0.82 107	0.47 73	-0.35	74
Montreal	- b/ -	0.70 108	-	-
New York	0.60 78	0.55 86	-0.05	9
Oslo	1.66 217	1.66 258	-	0
Panama	0.50 65	0.40 63	-0.10	25
Paris	0.79 103	0.36 56	-0.43	119
Rio de Janeiro	0.61 79	0.47 74	-0.14	30
San Francisco	0.45 59	0.45 70	-	0
São Paulo	0.61 79	0.47 74	-0.14	30
Singapore	0.57 74	0.49 76	-0.08	16
Stockholm	1.56 205	1.25 194	-0.31	25
Sydney	0.90 118	0.81 126	-0.09	11
Tehran	0.53 69	0.22 34	-0.31	141
Tel Aviv	0.80 104	0.51 80	-0.29	57
Tokyo	0.67 87	0.50 78	-0.17	34
Toronto	0.65 85	0.65 101	-	0
Vienna	1.08 141	0.65 101	-0.73	66
Zurich	0.76 100	0.64 100	-0.12	19

Source: Union Bank of Switzerland, Prices and Earnings Around the Globe
Zürich, 1976 p. 10

a/ Price for one pack of 20.

b/ Not available.

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United States, combined state and city taxes of \$2.30 a carton, plus a sales tax of 30 cents, raises the retail price of Lucky Strike to over \$5.25 a carton. In contrast, North Carolina, with a state tax of 20 cents a carton and a sales tax of 10 cents, has the lowest national price, since a carton of Lucky Strike retails for \$2.89. In terms of pricing policy this means that a single truckload of Lucky Strike, bought in North Carolina and brought to New York (where the cartons would be typically bootlegged for \$4 each) would yield a profit of \$60,000. ^{80/} The upshot of this revolution in pricing policy and marketing innovation has been that bootleggers in New York State have eliminated 33 out of 65 traditional wholesalers over the past decade. Criminal conspiracy charges have been brought against nine members of the Wholesale Tobacco Distributors in New York. ^{81/}

174. All five of New York's Mafia families reportedly have moved into cigarette marketing operations, and their estimated annual profits are around \$100 million. ^{82/} Given the massive aggregate gross marketing revenues of the Mafia, estimated at \$48 billion (which is comparable to the figure for Exxon and for General Motors of about \$55 billion in 1977), ^{83/} it can be expected that their licit and racketeering wholesaling and retailing tobacco operations, which now cover some 25-30 per cent of the United States market, will increase in the immediate future. An analysis of Mafia marketing revenues is given in table 24. The Mafia's command of finance and technology puts it in a position to annex even larger market shares, both domestically and internationally. It is also in a position to encroach on members of the prevailing tobacco oligopoly through stock purchases. Faced with the threat, the TTCs have now joined forces to resist it, which accounts for the antagonistic relationship between them and the Mafia.

^{80/} Wall Street Journal, 15 September 1976.

^{81/} A federal grand jury in its indictment charged the Wholesale Tobacco Distributors in New York with conspiring to fix wholesale cigarette prices. The indictment charges that the trade group had communicated to each other since 1965 at association meetings and elsewhere their intention to raise wholesale prices. (Wall Street Journal, 18 February 1977).

^{82/} Time, 4 October 1976.

^{83/} See International Herald Tribune, 21 April 1978. See also United States Congress Senate. Racketeering in the Sales and Distribution of Cigarettes, Hearing before the Subcommittee on Criminal Laws and Procedures of the Committee on the Judiciary, 95th Congress. First session, 21 October 1977, Washington DC, 1978.

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Table 24
Mafia: Estimated annual marketing revenues
(\$ billion)

Item	Gross	%	Net	%
Gambling	38.0	80	7.6	30
Loan-sharking	*/		10.0	39
Narcotics	5.0	10	4.0	16
Hijacking	1.5	3	1.2	5
Pornography and prostitution	2.0	4	1.7	7
Cigarette bootlegging	1.5	3	0.8	3
TOTAL	48.0	100	25.3	100

Source: Time, 16 May 1977. The calculations in the source are based on data from the National Gambling Commission, the Drug Enforcement Administration, the Tobacco Tax Council, the Senate Small Business Committee, the New York State Commission of Investigation and various law enforcement agencies.

*/ \$2.5 to \$3.5 billion loaned out at any given time.

B. Tobacco margins in selected countries

175. As can be seen from table 25 below, in each of the 11 European countries shown there are great variations in cost structures for the most popular brands. Production costs vary from a low of 7 per cent of the retail price in Denmark to a high of 34 per cent in Switzerland. In contrast, Denmark, with 84 per cent for value added tax (VAT) and excise tax, ranks first in taxes from the point of view of public revenue, and Switzerland nearly last (46 per cent). The proportion of retail price represented by trade margins varies little in Belgium, France, the Federal Republic of Germany, the Netherlands, and the United Kingdom; it is highest in Switzerland and Austria.

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Table 25
Components of the retail price of cigarettes a/
(in per cent, around 1975)

	AUSTRIA	BELGIUM	DENMARK
Production cost	13.1	22.3	7.4
Trade margin	19.5	10.6	8.3
VAT	12.4	5.7	13.0
Excise tax	<u>55.0</u>	<u>61.5</u>	<u>71.3</u>
Total	100.0	100.0	100.0
	FRANCE	GERMANY, Fed. Rep. of	ITALY
Production cost	17.2	19.0	14.7
Trade margin	10.5	10.7	10.9
VAT	7.1	9.9	15.3
Excise tax	<u>65.2</u>	<u>60.4</u>	<u>59.2</u>
Total	100.0	100.0	100.0
	NETHERLANDS	SPAIN	SWEDEN
Production cost	22.2	...	...
Trade margin	11.5	...	...
VAT	12.3	...	...
Excise tax	<u>54.1</u>	<u>32.2</u>	<u>58.5</u>
Total	100.0	100.0	100.0
	SWITZERLAND	UNITED KINGDOM	
Production cost	33.7	18.4	
Trade margin	20.1	9.1	
VAT	...	7.4	
Excise tax	<u>46.2</u>	<u>65.0</u>	
Total	100.0	100.0	

Source: Trade sources.

a/ Analysis based on the most popular brands in each country. Totals do not necessarily add to 100 owing to rounding.

C. Problems of tax harmonization in the European Economic Community

176. The first directive on harmonization of tax structures in the EEC took effect in December 1972. At that time, there were two different cigarette taxation systems among the six member States: in the Federal Republic of Germany cigarettes were subject to a 100 per cent specific excise tax, while in the five other countries, excise tax was calculated on an ad valorem basis with reference to the retail price.

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177. The 1972 directive specified that harmonization of tax structures for cigarettes would be carried out on the basis of end-product taxation, and that the excise duty would include both specific and ad valorem elements. One of the major problems in obtaining a definitive agreement lies in the differing position of countries where there is no State tobacco monopoly, on the one hand, and the two countries - France and Italy - on the other hand, which have a State monopoly and are in favour of a proportional, or ad valorem, system.

178. An important goal of tax harmonization in the Community is to secure a freer movement of goods under competitive conditions, in accordance with the Treaty of Rome, i.e. the elimination of internal obstacles to market interpenetration and the establishment in the final stage of the same burden of indirect taxation for all member States, so that the range of retail prices mirrors in principle manufacturers' delivery prices.

179. The international tobacco oligopoly has continued to strive for a dismantling of the French and Italian State monopolies, which it sees as a deterrent to the expansion of TTC sales. It is for this reason that the TTCs have opted, in general, for a predominantly specific system of tobacco taxation that would facilitate a far greater penetration of the French and Italian markets by cigarettes produced within the Community by their subsidiaries. Such a system would not necessarily provide opportunities for the two leading European State monopolies to boost sales elsewhere in the Community, partly because their entire sales and marketing apparatus is much less export-oriented and aggressive than that of the oligopoly (although the quality of their tobacco products is just as good) and partly because their production is predominantly of cigarette types not equally popular in other member States of the Community. Conversely, while in appearance an ad valorem system would not facilitate the complete penetration of the two State monopolies, it should be borne in mind that the Italian market has already been deeply penetrated by the oligopoly (specifically by Philip Morris) and by bootleg trafficking.

180. The level of ad valorem or specific duties, or the effect of any combination of these two, is not, in the final analysis, the determinant of market shares. The decisive factor is rather the sheer financial power and marketing skills, together with their advertising capabilities, discussed below, of the TTCs (which quite clearly the State monopolies in France and Italy do not possess to anything like the same degree). A suggestive pointer in this respect is the returns on capital: whereas SEITA (the French State tobacco monopoly) has a yearly return of 4-5 per cent, that of the tobacco oligopoly exceeds 20 per cent.

D. Advertising

181. Price competition and its corollaries have largely ceased to be the methods used for gaining larger market shares because of the exorbitant costs involved in what TTCs deem to be irrational and uncongenial modes of economic conduct. Ever larger advertising budgets and enhanced control of the mass communications media have become vital determinants of consumer behaviour. Advertising helps the TTCs to shape the demand function within markets. In a general equilibrium

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framework neither distribution nor consumption expenditure among commodities nor the allocation of consumer income between savings and consumption is independent of firms' behaviour. ^{84/} In an effort to conceal the full extent of their advertising outlays the TTCs in the United States have acted in unison to prevent the United States Federal Trade Commission (FTC) from collecting detailed marketing and advertising data. ^{85/}

182. Methods to conceal large-scale advertising outlays take the familiar forms of transfer pricing and excluding advertising agency commissions and advertising production costs. Moreover, heavy promotional spending is not quantified in measured media totals. Despite this, however, even at the formal advertising level the TTCs are among the first 50 leading United States national advertisers, with the following ranking: R.J. Reynolds (9); Philip Morris (14); American Brands (2); Loews (48); the first nine out of the top 25 outdoor advertisers; the first ten amongst the top 25 newspaper advertisers. ^{86/}

183. These practices of concealing advertising costs are much more prevalent in the developing countries, where procedures of investigation of most regulatory bodies are weak. Officially disclosed advertising costs as a percentage of sales in general give a very partial picture of total advertising costs.

184. Since the present battle of the TTCs is no longer one of price competition, advertising is the main instrument used to gain larger market shares, and this involves costly legal battles between various members of the oligopoly, with recriminatory charges and countercharges of fostering mendacious sales claims. ^{87/} The suit of American Brands against R.J. Reynolds of employing "false", "misleading and deceptive" advertising on one of its new 2mg tar cigarettes is typical of the many cases of litigation that are now taking place.

^{84/} K. Cowling, J. Gable, M. Kelly, T. McGuiness, Advertising and Economic Behaviour, London 1976.

^{85/} According to Business Week (16 May 1977), "until 1974 each member of a TTC in the United States was required by law to break expenditures down into five categories, including newspaper, magazine and direct advertising outlays. But the FTC is aware that the official figure of \$400 million on publicly disclosed advertising fails to give an ample breakdown of advertising, including point-of-sales promotions, allowances to retailers, public entertainment and other hitherto non-disclosed publicity. However, the FTC does not want the TTCs in the United States to use profits from more than \$7 billion in annual sales to persuade the public to take up an unhealthy habit or to increase consumption." (See also Advertising Age, 23 August 1976).

^{86/} Advertising Age, 23 August 1976.

^{87/} While much of this litigation may have an esoteric quality to an outside observer, it plays a vital role for enhanced market power. Likewise, Reemtsma, the conglomerate in the Federal Republic of Germany, has also filed suit against Philip Morris for the latter's use of the term "fine filter" in its advertisements, contending that it is not the filter itself which matters but what FM claims the filter does not do. According to the plaintiff, the use of the term "fine filter" is misleading because the cigarette condensate structure remains unaffected by the new filter. (See Tobacco Reporter, February 1976, and Advertising Age, 23 February 1976).

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185. Officially released advertising outlays of R.J. Reynolds indicate that they grew by 12.2 per cent annually from 1973 to 1976, and by 15 per cent from 1975 to 1976. (Expenditure was \$85 million in 1973, \$92 million in 1974, \$104 million in 1975 and an estimated \$120 million in 1976.) 88/ These sums refer exclusively to the United States market, which is not the case only for Reynolds since nothing is disclosed of the TTCs' advertising costs outside the United States.

186. The gap between advertising claims and performance is, perhaps, best portrayed in the present advertising sales campaigns for the low-tar cigarette market. As Fortune noted, the cigarette industry, with no process similar to the decaffeination of coffee, must resort to other measures to lower tar content. In the case of "Now", one of the latest low-tar brands of R.J. Reynolds, there is a new low-tar design combined with air dilution holes on the side of the filter, and cigarette paper of high porosity lets in still more air. In addition, a high level of reconstituted tobacco sheet, i.e. salvaging sweepings and stems formerly discarded is used. The technique of "puffing" is resorted to by injecting Freon and allowing it to expand. 89/

187. Commenting on Reynolds' advertising claims for its low-tar cigarettes, Consumer Reports noted that "Now" contained only 64 per cent as much tobacco by weight as a pack of Winston.

"It's getting so that you can hardly trust a cigarette advertisement anymore ... Someone suggested that the really 'unique' aspect of Now's design might simply be less tobacco. Accordingly, we decided to compare the tobacco content of Now with that of R.J. Reynolds' best selling brand, Winston, which is the same length as Now. We purchased packages of both brands from a variety of local stores and placed 27 packs in our constant temperature humidity room. The outer wrappings were removed and the cigarettes were allowed to stabilize at room conditions for 48 hours. Then samples were taken at random from each pack, and the tobacco contents of each cigarette sample were removed and weighed. Result: the average weight of the tobacco content in Now was only 64 per cent of that in Winston. ... smokers tend to smoke more cigarettes when the cigarettes are low in nicotine, which is an addicting agent. That, of course, means more unit sales. And when the tar and nicotine content is reduced through the cigarette equivalent of slack fill, such cigarettes cost less to produce. Consumer Reports can only gasp in amazement at the merchandising genius behind this example of a low-tar, low-nicotine cigarette that is also low in tobacco." 90/

88/ Business Week, 26 January 1976.

89/ Fortune, October 1976.

90/ Consumer Reports, July 1976.

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168. TTC penetration in both developed and developing countries is largely realized through the advertising complex of large transnational advertising agencies, harnessed to a highly sophisticated network of mass-persuasion technology. As with the big banks, the engineering industry, and the transnational leaf buyers, the morphology of the world advertising industry, through which the TTCs work, indicates the thrust of its marketing concentration. According to a recent report by the UNCTAD secretariat, ^{91/} the world's ten largest agencies accounted for 35 per cent of world advertising billings in 1975 and had 43 per cent of their activities in foreign countries (see table 26). Only in Japan do the transnational advertising agencies have only a limited foothold.

Table 26

The world's ten biggest advertising agencies by country, size and foreign content, 1975				
Rank	Agency	Nationality	Total Billings (in millions \$)	Foreign content (%)
1	Interpublic Group of Cos. ^{a/}	US	1 126	57 ^{b/}
2	Dentsu Advertising	Japan	946	3 ^{b/}
3	J. Walter Thompson	US	900	52
4	Young & Rubican International	US	801	40
5	Leo Burnett Co.	US	623	36
6	Ted Bates	US	604	54
7	Ogilvy & Mather International	US	581	54
8	International Needham Univas	France/UK/ US	562	37 ^{b/}
9	Batten, Barton, Durstine & Osborn	US	525	29
10	SSC & B Lintas International	UK/US	511	72
Total			7 179	42.5

Source: Advertising Age, 23 February and 29 March 1976; K.P. Sauvart, "Multinational enterprises and the transmission of culture: the international supply of advertising services and business education", Journal of Peace Research, No. 1, Vol. XIII, 1976. See "The Impact of Trademarks on the Development Process of Developing Countries, Report by the UNCTAD secretariat" (TD/B/C.6/AC.3/3), table 15.

^{a/} The most important member of this group is McCann Erikson, with \$775 million of billings, of which 70 per cent were abroad.

^{b/} Estimates for 1973.

^{91/} "The Impact of Trademarks of the Development Process of Developing Countries, Report by the UNCTAD secretariat" (TD/B/C.6/AC.3/3), paras. 224-248.

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189. The link between international advertising agencies and the TTCs is a conspicuous feature of the tobacco industry, where advertising has become an important barrier to entry, as well as a vital means of influencing consumers. As with the TTCs, the dominance of the international advertising agencies is not confined to the developing countries; they are also important in the developed countries, although participation by domestic firms is higher. In the developing countries, about 70 per cent of the total value of billings were accounted for by foreign agencies or joint ventures in 1975 (see table 27A). In several countries foreign control is total, while in several others there is a majority participation of the transnational advertising agencies (see table 27B). Professor Eichner's general observations apply with even greater force to the TTCs, and more particularly to the developing world.

"The sums spent on advertising are perhaps the least defensible of the investment outlays ... Indeed, it is hard to see what public good, if any, is served by this type of expenditure. Rather than informing the potential buyer, advertising, especially placed in the mass media by the megacorporation, merely obfuscates and confuses. The main effect, in fact, is to debase and corrupt a large part of society's informational network. The economic arguments on behalf of advertising, meanwhile, are hardly to be taken seriously. Even if it were true that advertising could shift the aggregate consumption function, there are certainly better and more direct ways of avoiding a decline in the over-all growth rate. In reality, the primary function of advertising - and the only reason that megacorporation spend as much money on it as they do - is to protect the market position of established firms by erecting formidable barriers to entry." 92/

E. Competition and co-operation

190. Competition and co-operation among the TTCs are not mutually exclusive. Competition takes the form of the struggle for larger market shares, whereas there is active co-operation, not only in the swapping of trademarks but also in other areas. Co-operation becomes immediately apparent if any new forces attempt to penetrate the outer defences of their perimeter. This was brought out in the 1930s anti-trust suits in the United States against certain members of the United States oligopoly who welded their forces together to keep out potential entrants. In addition, there are equally powerful forces which any potential entrant must be prepared to overcome, one of which is directly germane to advertising. It is here that brand loyalties and advertising assume their basic importance and impinge directly on pricing policy.

191. Any potential candidate wishing to annex a market slice of the oligopoly must do two things: he must have an expanding base to mount an offensive against one of the world's most highly capitalized and capital-intensive industries, i.e. he must be underpinned by finance capital; second, even if he surmounts this barrier he will be confronted with the task of detaching the already moulded consumer from existing brand loyalties and the necessity of creating new brand loyalties by recourse to the massive deployment of advertising technology.

92/ Alfred S. Eichner, The Megacorp and Oligopoly: Micro-Foundations and Macro-Dynamics, Cambridge University Press, 1976, pp. 263-284.

Table 27A
Structure of ownership of advertising agencies' billings

Group of countries	Agencies			Agencies		
	Foreign	Joint ventures	National	Foreign	Joint ventures	National
	1974 (percentage)			1975 (percentage)		
Developed countries excl. USA	40.9	7.4	51.7	42.1	7.1	50.3
Developed countries incl. USA	7.9	3.2	89.0	18.6	3.1	78.3
Developing countries	62.1	6.8	31.1	62.2	6.7	31.1
Total (incl. USA)	19.5	3.3	77.2	20.4	3.3	76.3

Source: UNCTAD secretariat estimates on the basis of information in Advertising Age, 29 March 1976 (see TD/B/C.6/AC.3/3, op. cit., table 16). Foreign agencies were considered those in which foreign participation was higher than 50 per cent, while joint ventures were considered those in which there was a minority foreign participation. National agencies were those 100 per cent in local hands.

Table 27B
Structure of ownership control in selected countries
(percentages)

Country	Foreign	Joint Ventures	National
<u>Developed market-economy countries</u>			
United States	-	-	-
United Kingdom	69.8	4.8	25.4
Federal Republic of Germany	64.8	11.7	23.5
Switzerland	39.5	12.1	48.4
Japan	4.2	1.0	94.7
<u>Developing countries</u>			
Dominican Republic	100.0	-	-
Ghana	100.0	-	-
Guatemala	100.0	-	-
Honduras	100.0	-	-
Indonesia	100.0	-	-
Lebanon	100.0	-	-
Morocco	100.0	-	-
Peru	100.0	-	-
Sri Lanka	100.0	-	-
Uruguay	100.0	-	-
Mexico	62.0	5.8	32.2
Thailand	84.9	15.1	-
Venezuela	75.0	25.0	-
Malaysia	94.1	-	5.9
Pakistan	68.9	-	31.1

Source: UNCTAD secretariat estimates, based on data in Advertising Age, 29 March 1976.

192. Were any developing countries to generate an independent export capability they would encounter fierce resistance. In the words of a leading trade journal: "Importers simply cannot match the promotional and advertising muscle of the fat cats." ^{93/} Imports from the developing countries which may occur in the strongholds of traditional TTC markets are, at best, casual. Beyond a threshold of tolerance they will be hindered by the TTCs through the marketing and distribution chain and the sheer technology of the industry. The power exercised over the franchises are pointers in this direction.

F. Low market turnover

193. Another crucial factor is that imported cigarettes in any market where the TTCs are already entrenched have too low a market turnover - notwithstanding profit margins on them which, under certain conditions, could be high. Elimination of unwanted brands will also be speeded up by the more widespread use of vending machines. ^{94/} Because these machines operate on the principle of selectivity - 10, 15 or 20 columns - and since one leading brand could have several variants, selection will be made according to markups and turnover, which is once again an exclusive function of manipulatory techniques.

G. Machinery for the tobacco industry

194. The industry producing machinery required for leaf tobacco processing and manufacture is a capital-intensive, export-oriented one, comprising three major transnationals (Molins, Hauni, American Machine and Foundry (AMF)) and one smaller one (Arengo-Decouflé of France). ^{95/} Molins, a partially-owned corporation of BAT and Imperial, is the world's leader, producing almost all packaging machinery and automatic handling equipment entering into international trade and more than 60 per cent of cigarette-making machinery. In primary equipment, its competitors Hauni (Federal Republic of Germany) and AMF (Federal Republic of Germany) jointly share about 60 per cent of the world market.

^{93/} See R. Marin, (editor of the US Tobacco Journal) "Any Scope in the US for Imported Cigarettes?", in World Tobacco, September-October 1973.

^{94/} Cigarette vending machines are particularly widespread in the Federal Republic of Germany, where they account for about 45 per cent of total sales. The marketing implications of this have recently been spelt out by World Tobacco (April 1977), when it reported that "the number of vending machines which handle this trade total some 800,000. Since in these machines the average number of columns is about ten, it follows that the cigarette business has about 8 million vending machine columns at its service. How great an influence the cigarette vending machines can exercise is clear from the fact that, of the approximately 210 brands offered on the market, only about 10 per cent of these brands are available in machines installed in averagely-frequented places". Thus, once again, it can be seen that invariably every technical advance tends to enhance the power of economic concentration. The vital role of advertising in the selection of the 10 per cent of brands in this example is self-evident.

^{95/} Arengo-Decouflé is a wholly-owned subsidiary of the Swedish Match Company.

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195. There are four major segments of the tobacco machinery industry:

- (1) Machinery for the preliminary processing of tobacco leaf so as to make the leaf pliable by boosting its moisture content;
- (2) Machinery for the manufacture and processing of pipe and cigarette tobacco, consisting of:
 - stemming (or stripping) machines and threshing machines;
 - stem crushing machines;
 - blending plant machines;
 - cutting machines;
 - drying and cooling plant machines;
 - spinning machines;
- (3) Cigarette-making machines, which are the most crucial in value terms, and cigarette ripping or splitting machines used to recover tobacco in rejected cigarettes;
- (4) Packing, parcelling and packaging machinery, consisting of:
 - cigarette packing machines;
 - parcelling machines and boxing attachments;
 - wrapping machines;
 - tobacco packing machines.

196. Symptomatic of the tobacco manufacturing industry's highly capital-intensive nature are the striking advances in productivity in Sweden over the last 60 years, as shown in table 28.

Table 28
Sweden: Labour force and productivity in the
cigarette industry, 1916-1976

Year	Number of workers in cigarette production		Output per worker (1 000 pcs.)	
		Index (1916 = 100)		Index (1916 = 100)
1916	641	100	1 098	100
1940	464	72	4 640	423
1950	448	70	8 672	790
1960	447	70	14 181	1 292
1970	395	62	22 722	2 069
1976	481	75	23 447	2 135

Source: Trade sources.

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197. With a general movement towards increasing automation, it is not surprising that the labour force in the tobacco manufacturing industry in the OECD countries, in both absolute and relative terms, is now significantly lower than at the beginning of the century and will decline still further in the coming decade.

198. The discussion which follows on the marketing and costing of tobacco machinery is confined exclusively to the Molins company, primarily not because it was, and remains, the technological and sales pacesetter in the industry, but because of considerations of data availability. Even this data is not very recent, being derived from the United Kingdom Monopolies Commission, which investigated Imperial and Molins with respect to restrictive practices in 1951.

199. Molins' pricing policy for new machine types at the time of the Monopolies Commission investigation was based on setting a provisional price derived from the estimated cost plus a markup of 50 per cent. If the piece of machinery was an exclusive design or contained a novelty, a royalty might be added.

200. In general, it would appear from Molins' evidence to the Monopolies Commission that the determinant of pricing policy lay in the quality of its machines, the after-sales service, and savings which tobacco manufacturers might expect to derive from the introduction of a particular machine. In Molins' view, price determination is largely a matter of arriving at a reliable estimate of cost and deciding the level of profit "that is considered necessary to operate". In other words, while the markup norm remains 50 per cent, there is a sales flexibility related to competitive forces in the world market and the economies of scale to be realized from the purchase of Molins machinery. 96/

201. It should be emphasized that, in general the pricing and sales policy approach does not appear to vary much among members of the tobacco machinery oligopoly. Further, while changes have undoubtedly been introduced since the official enquiries into sales, costs, profit and capital structures of Imperial and Molins, the underlying marketing strategies remain basically unaltered.

96/ The considerations taken into account by Molins include "the economic value of the machine to the user, the market for the machines, the existence of competitive machines and the quantity of a particular order" (Monopolies Commission, op. cit., p. 138).

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Chapter IV

PRICING AND MARKETING OF LEAF TOBACCO

A. Transnational buyers

202. Some 85-90 per cent of leaf tobacco that enters into international trade is under the direct or indirect control of approximately six transnational leaf buyers - Universal Leaf, Transcontinental Leaf Tobacco Company (a subsidiary of the Standard Group), Debrill Brothers and the fully-owned BAT subsidiary, the Export Leaf Tobacco Co. with its regional extensions, the Imperial Tobacco Leaf subsidiaries, Kulenkampff and A.C. Monk and co.

203. The Universal Leaf Tobacco Co.^{97/} is the world's largest leaf dealer and processor, with annual tobacco revenues of almost \$700 million, retained earnings of \$110 million and a labour force of 12,500. There is no clear demarcation of national and international markets between the specialized oligopolistic leaf buyers and processors and members of the manufacturing oligopoly.

204. Although most TTCs have their own leaf subsidiaries, these are not geared exclusively to meeting their internal requirements. This marketing practice, inaugurated almost a century ago by the American Tobacco Co., still prevails, although there is no uniformity. Philip Morris, for example, one of the biggest TTCs, does not have a leaf purchasing subsidiary but buys leaf in the United States and abroad through specialized dealers.

205. The extent of buyers' concentration can be gauged from the estimated flue-cured and burley tobacco purchased in 1976 by selected companies at the United States auction system, the world's largest: Universal Leaf: 25 per cent; Export Leaf: 18 to 20 per cent; R.J. Reynolds: 18 to 20 per cent; Debrill Brothers: 15 per cent and A.C. Monk: around 10 per cent.

206. BAT's leaf subsidiary accounts for around 80 per cent of Brazil's tobacco exports.^{98/} In Malawi three transnational dealer-processors make 90 to 95 per cent of total tobacco purchases. Three leaf-purchasing companies also account for about 90 to 95 per cent of Rhodesian and Zambian tobacco purchases. In Canada, another major world exporter, three foreign TTCs control over nine-tenths of domestic and foreign sales: British Leaf Tobacco Co. (the leaf subsidiary of Imperial), Universal Leaf and Debrill Brothers.^{99/} In Turkey, where a State monopoly exists, around 40 per cent is marketed by the major leaf companies in normal trading years.

^{97/} See the company's Annual Report, 1976 and SEC Form 10-K.

^{98/} In 1975, BAT was the exclusive buyer of Kenya's leaf tobacco, and the exclusive cigarette producer.

^{99/} Debrill Brothers has now diversified into manufacturing non-tobacco commodities.

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207. Increasingly, the TTCs (primarily BAT and Imperial, who were from their inception leaf dealers) have moved into buying and processing. As with every facet of the world tobacco economy, leaf tobacco marketing and distribution has become, in recent years, increasingly rationalized and concentrated on a global basis. What should be highlighted is the unbalanced power relationship at both the national and the global level between transnational leaf buyers and domestic growers.^{100/} The leverage of the former is a determinant in the shaping of pricing policies.

B. Universal Leaf: market orientation

208. Universal Leaf's functions include buying, packing, processing, storing and financing leaf tobacco in all tobacco-growing countries for the account of, and resale to, tobacco manufacturers throughout the world. It is also a conglomerate with an increasingly diversified industrial base. The Overton Co., a division of the K.R. Edwards Leaf Tobacco Co., is a majority-owned subsidiary of Universal, with revenues originating in the manufacture of containers for the tobacco industry and kitchen cabinets. Through another wholly-owned manufacturing subsidiary, Intra-Rota, it designs and builds industrial equipment for packaging. Another division of that subsidiary manufactures engraved steel cylinders used for automobile seat covers, imitation leather and vinyl coverings, and produces cylinders for roto-gravure presses. Yet another subsidiary is involved in real estate. Universal Leaf has followed the analogous patterns of diversification of the TTCs, albeit on a more modest scale.

209. Its revenues are derived from four sources: sales of processed tobacco; fees and commissions for specific services, i.e. purchase, packing, shipping, processing, storing, financing and other services; sales of tobacco containers; reimbursement for the purchase price that the company pays for green tobacco on the warehouse floors upon specific orders of its clients, as explained in the following paragraph.

210. The marketing mechanism is that leaf tobacco is purchased provisionally packed in hogsheads and transported directly to the manufacturer in the same condition in which it is received from the farmer. The company is reimbursed for the green purchase price of the tobacco and is paid a fee for the specific services rendered. Its marketing technique consists in the selection and purchase of leaf tobacco when corporate marketing strategy dictates that future demand will justify such purchases or when it envisages that such purchases and subsequent resale will be profitable.

^{100/} Size of holdings is best revealed by data for Brazil. The highest crop concentration is located in Santa Cruz do Sul (48 per cent of total output and 49 per cent of the cultivated area). Generally, the land belongs to the grower. The average size of the grower's family is five persons with average holdings amounting to 1.5 ha. per family, rising in extreme cases to 3.7 ha. (Brazilian Bulletin, January 1975).

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C. Technical innovation

211. Major leaf buyers have been able, in part, to consolidate their marketing position as a result of a spate of recent technological innovations which were a response to rising costs. As a highly perishable commodity, undried tobacco normally has to be processed in an area contiguous to the place of cultivation and marketing. Redrying is preceded by a quality improvement process involving regrading, elimination of superfluous leaves, soil and other foreign matter, as well as removal of the undesirable section of the main stem. This in turn necessitates a complex threshing and separation process operated electronically. In the flue-cured industry innovations assumed the form of extended harvest mechanization, expanded untied leaf sales, and output of homogenized tobacco sheet from tobacco stems.

212. These technical innovations have altered the cost and profit structure of the dealer-processor firms. Growth of untied leaf sales and harvest mechanization have led to a drastic shift in processing technology also. As recently as 1965 more than 75 per cent of the flue-cured tobacco crop was tied in bundles for marketing. Three years later bundles accounted for only 1 per cent of farmer's flue-cured tobacco marketings. In other major tobacco exporting countries this technical breakthrough has been emulated although, with the exception of Canada, it has not yet reached the same technical sophistication as in the United States.

213. The profitability of the transnational processors has been enhanced by the output of homogenized sheet from tobacco stems, which earlier had an insignificant commercial value. Although stems still have a low market value compared with the leaf lamina, it is now technically feasible to process and market the product. What remains to be done is to narrow the tobacco quality gap between the stem and the leaf lamina. Given the nature of the marketing chain, the gains of these technical innovations have redounded to the large dealer-processors.

D. Marketing agents

214. Marketing of leaf tobacco by the transnational dealer-processor is carried out through foreign commission agents and a sales force who are in permanent contact with domestic and foreign customers. Risks attendant on foreign sales and services are negligible, because most customers are established oligopolies, and all sales are essentially made in United States dollars, with the exception of Canada, where they are made in Canadian dollars, while purchases are either in United States dollars or in relatively weak currencies of developing countries.

215. Because of the size of the manufacturing oligopoly, sales are confined to a very restricted circle of buyers. The bulk of the revenues of the transnational processors originate abroad. In the case of Debrill Brothers, around 72 per cent of its consolidated revenues emanated from foreign sales and services, a figure which is exceeded only by the leaf subsidiaries of Imperial and BAT.

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Table 29

Subsidiaries of Universal Leaf Tobacco Co.

Subsidiary	Per cent of ownership	Location
1. Continental Leaf Tobacco	100.0	South Africa
2. Limbe Leaf Tobacco Co.	50.7	Malawi
- Bokke Ltd. (Limbe)	100.0	Malawi
- Lytton Tobacco Co.	100.0	Malawi
- Globe Tobacco Co.	100.0	Malawi
- J.F. Stevens Tobacco Co.	100.0	Malawi
- Warehousing Co.	100.0	Malawi
3. Seta	50.0	Angola
4. Tanzania Leaf Tobacco Co.	100.0	United Republic of Tanzania
5. Zambia Leaf Tobacco Co.	100.0	Zambia
6. Rhodesia Leaf Tobacco Co.	82.1	Southern Rhodesia
- Bumi Hills Hotel	100.0	" Rhodesia
- Lytton Tobacco Co.	100.0	" Rhodesia
- R.V. Noaks (Pvt)	100.0	" Rhodesia
- Warwick House (Pvt)	100.0	" Rhodesia
- Wensleydale Estate	100.0	" Rhodesia
- Bokke (Rhodesia)	89.0	" Rhodesia
- (a) Quality boxes	100.0	" Rhodesia
- Dixie Furnishers	49.0	" Rhodesia
(a) Dixie Furnishers (Bulawayo)	100.0	" Rhodesia
(b) Dixie Furnishers (Gwelo)	100.0	" Rhodesia
(c) Dixie Furnishers (Uthuli)	100.0	" Rhodesia

Source: Universal Leaf, SEC 10-K Form, 1976.

220. In its official report to the SEC, Universal noted that "due to the United Nations sanctions imposed in December 1966 supported by the United States, as well as the Rhodesian Secrecy Law, current earnings and equity information for the Rhodesian affiliated company are not available".^{105/} It is legally spurious, however, to couple United Nations sanctions with the Rhodesian Secrecy Law in explanation of the total dearth of such information, for there are no specific provisions of the United Nations sanctions that forbid the publication of such data. Rather, the exercise of censorship in Southern Rhodesia presents an ideal opportunity for concealment of data and of market operations. It should, of course, be emphasized that, even prior to sanctions, such information in Southern Rhodesia (and other dependent territories) had seldom been made public, save in a highly truncated form, a situation which still prevails in third-world countries.

^{105/} Op.cit., p.7.

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221. Non-disclosure of information on their global operations is an inherent feature of the TTCs. Once again, it has only been due to the federal agencies of the United States such as the SDC and the Federal Trade Commission, combined with illuminating Congressional hearings, that evidence of market manipulation has surfaced. As a result, more information has emerged which gives a deeper insight into the workings of the TTCs, but it is far from adequate for a global understanding of the ramifications of conglomerate marketing strategy.

222. With few exceptions, developing countries have not made detailed official enquiries into the scale of operations and profitability of the transnational leaf processors and their pricing policies. None of these countries has studied the intricate patterns of the TTCs' global marketing practices as they impinge on their national economic interests. Moreover, there are few legal and accounting mechanisms of control that could lead to effective legal action against the TTCs in the event of economic misconduct.^{106/}

223. Recently, leaf tobacco purchases by cigarette manufacturers, exporters and intermediaries in the Philippines have highlighted the marketing techniques and pricing policies employed in price manipulation, affecting the incomes of 60,000 farmers in that country. In evidence given to an official enquiry the Director of the Philippine Tobacco Board declared that the buyers conspired to delay the purchase of tobacco, thus forcing the producers to sell at lower prices. In addition to reducing the price paid for leaf tobacco, the buyers failed to register their leaf purchases in order to evade taxes, causing an estimated tax loss of about 15 million pesos (US\$ 2.15 million) in 1976.^{107/}

224. This marketing technique demonstrated that exporters and manufacturers did not allocate funds to buyer-intermediaries until the purchase price corresponded to their own pre-determined pricing strategies. The upshot of such marketing techniques and pricing policies, according to the inquiry, was that apart from

^{106/} Pursuant to Conference resolution 96 (IV), section III, negotiations are in progress in UNCTAD on a set of multilaterally agreed equitable principles and rules for the control of restrictive business practices having adverse effects on international trade, particularly that of developing countries. These negotiations cover, *inter alia*, the supply of information, particularly by developed countries, on restrictive business practices and the elaboration of a model law or laws on restrictive business practices. See in this connexion the report of the Third *Ad hoc* Group of Experts on Restrictive Business Practices on its fourth session, held at Geneva from 28 March to 7 April 1978 (TD/B/C.2/AC.6/13). The Group is to hold a further session in July 1978, and the reports on its third, fourth and fifth sessions will be considered by the Trade and Development Board at its eighteenth session, in August/September 1978, thereby enabling the Board to take appropriate action concerning institutional arrangements for the negotiation of a set of multilaterally agreed principles and rules.

^{107/} "From my investigation I found out that the cigarette manufacturers and the middlemen connived to delay the tobacco-buying operations until the tobacco farmers practically begged the tobacco traders to buy their produce at very low prices. One technique used by the operator-buyers is the 'Close and Open Method' wherein the operators close their warehouses when the tobacco prices are high and open them when prices are low. With this price manipulation method, the farmers have no place to sell their crop. The operators then 'swallow' the farmers' produce at ridiculously low prices" (Tobacco Reporter, 31 November 1976).

depriving tobacco growers of some 150 million pesos (US\$ 21.5 million), the buyers also defrauded the Government by issuing receipts indicating payments made for the purchased tobacco at prices set by the Government, i.e. a padding of 100 per cent on the average. Few such enquiries of extortionate pricing policies have come to light in the developing world although in this realm United States precedents and experience remain invaluable.^{108/}

E. Anti-trust actions

225. At present two anti-trust actions in the United States have been filed against the leaf tobacco majors and the TTCs by approximately 400,000 burley tobacco growers and approximately 11,000 South Carolina flue-cured tobacco growers. In both of these legal actions it is alleged, among other things, that the leading manufacturers and leaf dealers acted in collusion to fix prices at which leaf tobacco is marketed.

226. The suit filed on 28 July 1974 is against six major manufacturers and a subsidiary of Universal. These include American Brands, Brown and Williamson (BAT), Liggett and Myers (Rupert/Rembrandt Group), P. Lorillard (Loews), Philip Morris, R.J. Reynolds and the Southwestern Tobacco Co., a wholly owned subsidiary of Universal Leaf. The suit alleges violation of United States anti-trust laws and seeks damages to the tune of \$2.1 billion. The second suit, filing action against eight major cigarette manufacturers and six leaf tobacco dealers, seeks damages amounting to \$335 million.

F. The auction system

227. The auction system, as it has developed in the United States over the last century, has become one of the vital marketing agencies in the world tobacco economy. Besides the United States, it is used in Canada and southern Africa, where growers sell leaf tobacco through the loose auction market, or through co-operative marketing agencies. More than nine-tenths of all tobacco produced in North America is marketed through auctions.

228. In Canada, the Ontario flue-cured tobacco crop is sold by the Dutch Auction Clock Method, which is a mechanical device with the clock going in reverse from the highest figure down to the selling price. Auction markets for flue-cured tobacco in the United States usually open in the second week of July in Florida and then progressively move north-east towards the latter part of November. The burley tobacco markets open towards the end of November and terminate towards the middle of February.

^{108/} See, for example, United States v. American Tobacco Company, 191F 371-431, and United States v. American Tobacco Company et. al. Record on Appeal (Docket No. 91379139), 6th Circuit, 1944.

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229. The bulk of tobacco is therefore purchased by the dealer-processors during an eight-month period running from July to February, and their processing plants operate seven to nine months during the year. For all major leaf buyers during the period from July to December inventories of redried tobacco and trade accounts receivable normally reach peak levels in successive stages.

230. Current liabilities (notably for short-term notes payable to banks) used to finance normal seasonal expansion of current assets, generally attain their peak during this period. The upshot is that for the large dealer-processors, whose fiscal year ends in May-June, the items of the working capital of the firm do not reflect seasonal increases, due to extensive short-term borrowings.

231. On the selling side there are a very large number of growers, but the buyers, for reasons already indicated, can reasonably be designated as oligopolistic.^{109/}

232. The grower receives payment immediately from the warehouseman, with selling charges deducted. Institutional buyers usually pay for warehousing services within a few days. Selling charges fluctuate by types of tobacco, ranging from 3 to 6 per cent of the value.

233. Immediately following the sale, the buyer removes the tobacco from the warehouse to the packing house, or redrying plants, where it is redried, sorted and packed in hogsheads for shipment or storage. Almost all the tobacco bought by large manufacturers is transported to their own warehouses for storage and maturation. Normally, manufacturers would have a 16-18 months supply, or sometimes a supply of two to three years. The inventory-warehousing charges for the companies are an important segment of their marketing and distribution costs.

234. In the United States, government price support is offered for all types of tobacco sold at auctions, where growers have approved marketing quotas. For each grade of tobacco a price support level is fixed. If the buyer's bidding price on any basket is not more than the Government loan rate for the grade, the grower may accept the loan rate. If he does, he is paid in the normal way by the warehouseman, who is in turn reimbursed by the applicable co-operative association receiving the tobacco under loans.

^{109/} See the following works which attempt to evaluate the competitive conduct of buyers: E.L. Jackson, The Pricing of Cigarette Tobacco, University of Florida Press, 1955; R.B. Tennant, The American Cigarette Industry, Yale University Press, 1950 and W.H. Nicholls, op.cit.; United States Department of Agriculture, Tobacco in the United States: Production, marketing, manufacturing, exports. Washington D.C., 1973.

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Chapter V

OUTPUT, TRADE AND PREFERENTIAL STRUCTURES

A. Production trends

235. Leaf tobacco is now grown in all countries, with the exception of those in northern Europe. The history of Japan shows how, with the advent of new strains, a country with formerly limited production can become self-sufficient in tobacco leaf to a large extent. At present producing 65-70 per cent of its leaf requirements, Japan could become completely self-sufficient were it not for a limited arable area and the need to strike a balance in land use between food and other agricultural output. Despite progress in mechanization, world output of tobacco leaf remains overwhelmingly labour intensive. Five countries (China, the United States, India, the USSR and Brazil) together account for about three-fifths of world output.

236. About a quarter of leaf tobacco produced enters into international trade, valued at \$2.1 million in 1974, or 1.5 per cent of world exports of goods and services in that year. If tobacco manufactures are included, the export value would rise to about \$3.5 billion, or 2.5 per cent of world trade.^{110/} Around 55 per cent of leaf tobacco exports originate in developing countries.^{111/} However, their share in world exports of manufactured tobacco is very small.^{112/}

237. Table 30 sets out the average value of leaf tobacco exports in 1971-1974 by the major exporting countries and its relationship to GNP and to total exports. Apart from the United States and Canada, tobacco leaf exports are especially important for the external sector of the economy in Malawi, Turkey and Greece and, to a lesser extent, in Bulgaria, India, the Philippines and Brazil. Only in the case of Malawi (7.8 per cent) do leaf tobacco exports, as a share of GNP, exceed 1 per cent.

^{110/} UNCTAD secretariat estimates, based on United Nations and FAO statistics, and Commonwealth Secretariat estimates in Tobacco - GATT Multinational Trade Negotiations, London, December 1975.

^{111/} Source: FAO statistical yearbooks.

^{112/} The most significant trade in cigarettes between a developed and a developing country is constituted by India's exports to the USSR, which are made by a wholly Indian company, the Navabharat Tobacco Company.

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Table 30

Importance of the leaf tobacco industry in major
exporting countries, 1971-74

Country	GNP per capita in 1975	Export of leaf tobacco 1971-74		
		Average annual value	As proportion of	
			Total exports	GNP
	(\$)	(\$ million)	(Per cent)	
United States	6 640	653.9	1.0	0.05
Canada	6 030	59.9	0.3	0.05
Greece	1 970	112.1	8.9	0.74
Bulgaria	1 770	88.2	3.0	0.73
Brazil	900	60.5	1.2	0.09
Turkey	690	139.6	12.7	0.68
Zambia	480	6.0	0.6	0.31
Philippines	310	21.8	1.3	0.20
India	130	73.8	2.6	0.11
Malawi	130	39.8	42.8	7.80
World	1 064	1 799.4	0.4	0.04

Sources: Computed from data in FAO, Trade Yearbook, various issues;
United Nations Monthly Bulletin of Statistics; OECD, Main Economic
Indicators.

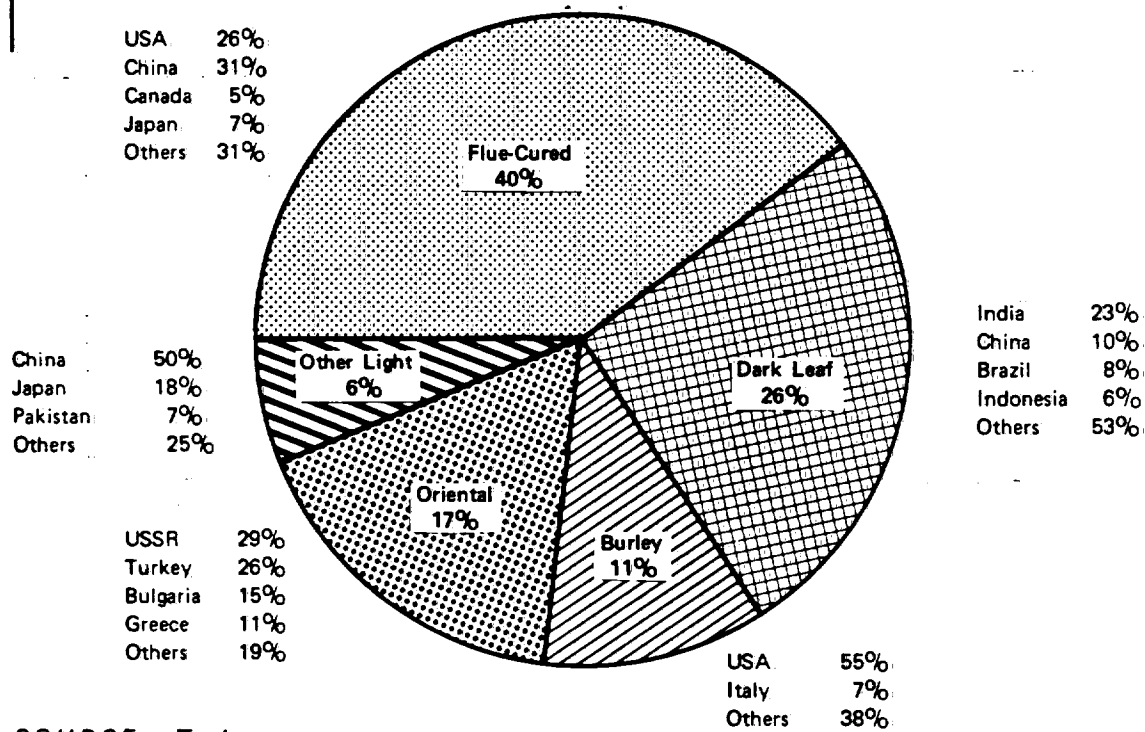
238. Output is, as may be expected, less concentrated on a country basis than is trade. However, four countries - China, the United States, USSR and India - account for about half of total world output by volume. Together they have an estimated 1.4 million ha. under cultivation with average yields of 1,500 kg. per ha. (Details by country are shown in table 30) In other countries yields are reckoned to be roughly 700 kg. per ha., although there are substantial disparities in countries where production is relatively highly mechanized. In Japan and several Western European countries, yields in excess of 2,700 kg. per ha. have been recorded. The organization of leaf tobacco production is still labour intensive, with the bulk of output generated by small scale peasant farming and share cropping. Around 15 million peasants and small farmers, on a conservative estimate, are employed, or self-employed, in the growing of leaf tobacco.

239. The shift to flue-cured leaf is also seen in many developing countries, (see charts XVIII and XIX and table 32) although in certain African countries ecological problems have been a deterrent to a swifter transition. Upgrading flue-cured varieties in the peripheral economies to meet exacting international norms still has a long way to go, and present regulatory measures on pesticides may also inhibit market access from the periphery to the EEC.

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Chart XVII

DISTRIBUTION OF WORLD OUTPUT OF TOBACCO
BY MAJOR PRODUCERS AND MAJOR TYPES, 1973

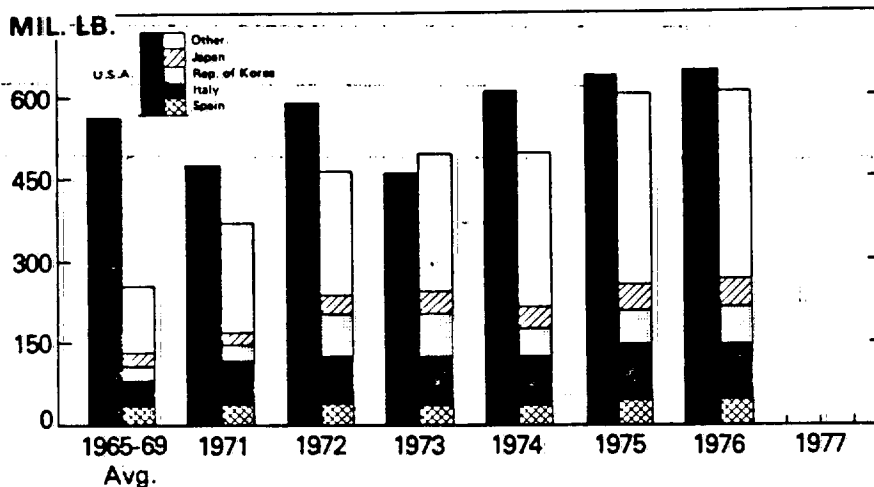


SOURCE : Trade sources

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Chart XVIII

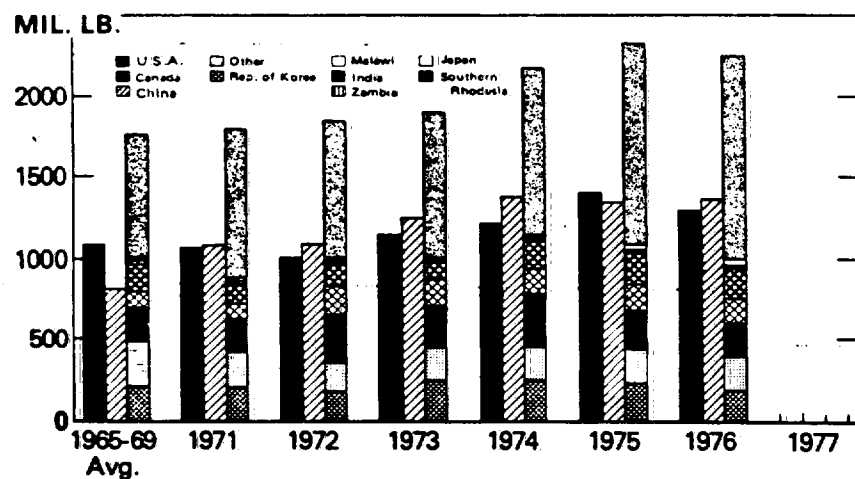
BURLEY TOBACCO: ESTIMATED WORLD PRODUCTION, 1965-1976



Source: Information supplied by the U.S. Dept. of Agriculture.

Chart XIX

FLUE-CURED TOBACCO: ESTIMATED WORLD PRODUCTION 1965-1976



Source: Information supplied by the U.S. Dept. of Agriculture.

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Table 31

Output and yields of leaf tobacco in selected countries, 1974

Country a/	Area (000 ha.)	Output (000 mt)	Yield Kg/ha.	Yield (Japan = 100)
Japan	55.7	151.4	2 720	100
United States	387.3	990.3	2 299	85
USSR	196.0	303.0	1 656	61
China	774.2	1 009.3	1 304	48
Brazil	202.3	217.5	1 075	40
Bulgaria	134.0	140.0	1 045	38
India	446.4	441.4	939	36
Greece	86.2	80.9	938	34
Philippines	105.2	78.5	746	27
Thailand	108.1	54.0	500	18
Turkey	360.2	175.2	486	18

Sources: Estimates of the India Tobacco Board, Japan Tobacco and Salt Public Corporation, the Commonwealth Secretariat and FAO, Production Yearbook.

a/ In descending order of yield per hectare.

Table 32

Distribution of marketed world output of tobacco by major types
(per cent)

Leaf type	Late 1930s	Early 1950s	Early 1960s	Mid-1970s
Flue-cured	21	31	38	41
Oriental	15	15	15	19
Dark air-cured	35	25	20	16
Light air-cured (Burley)	10	14	10	10
Dark sun-cured	15	11	11	9
Other light sun-cured	5	5	4	4
Fire-cured	3	3	2	1
Total	100	100	100	100

Source: Trade sources

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B. Consumption trends

240. World cigarette output is a good indicator of world demand for leaf tobacco since more than four-fifths of world consumption of tobacco is in the form of cigarettes. Over the past 60 years, and more especially since 1950, there have been rapid changes in tobacco consumption, which can best be demonstrated from the wealth of American data. In 1900, cigarettes in the United States accounted for 3.4 per cent of leaf tobacco consumed, 4.1 per cent of the sales value of tobacco production, and around 6.7 per cent of tax-revenue from tobacco products.^{113/} By the mid-1970s, the corresponding shares were respectively about 90, 91 and 97 per cent.^{114/} In that same period cigarettes in the United States accounted for 92.5 per cent of tobacco consumption, cigars for 4.3 per cent; and snuff, chewing and smoking tobacco for the remainder. At a retail level of \$15 billion, aggregate tobacco consumption amounted to 1.5 per cent of United States disposable consumer income.

241. So far, the cigarette industry has proved almost recession-proof, as shown by its systematic per capita growth of consumption in both the developed and the developing countries over the last decades. Table 33 below shows per capita consumption in selected countries for the period 1920-1973. The growth of consumption in certain developed market-economy countries, however, shows signs of tapering off, and consumption per capita is likely to be stabilized at around 4,000-4,500 cigarettes per year by the mid-1980s.

242. Data for the United States for output of cigarettes, cigars and other manufactured products show that over the almost 100 years from 1888 to 1975 output of cigars grew by a compound rate of 0.9 per cent per annum, and of cigarettes by 7.8 per cent.

243. As shown in table 34, world cigarette output grew by 3.5 per cent annually from 1965-1969 to 1975, with relatively slow growth in North America. The fastest growing world producing/consuming regions are essentially the developing ones. Owing to the relatively low level of per capita consumption in these regions, the gap that separates them from the developed market-economy countries is still large and underlines the vast market potential for the tobacco oligopoly. Brazil, where the growth of cigarette output was around 8 per cent annually, illustrates this enormous potential.

^{113/} R.B. Tennant "The Cigarette Industry" in W. Adams (Ed.), The Structure of American Industry, 4th ed., New York, 1972.

^{114/} Information from trade sources.

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Table 33

Per capita consumption of cigarettes in selected countries, 1920-1973

(Number of pieces)

Country	1920	1930	1940	1950	1960	1970	1973
United States	610	1 370	1 820	3 240	3 780	3 650	3 850 ^{a/}
Switzerland	-	540	690	1 500	2 380	3 470	3 370
United Kingdom	1 060	1 380	2 020	2 180	2 760	3 050	3 230
Canada	430	720	920	1 790	2 910	3 340	3 490
Japan	600	750	1 130	1 220	1 880	2 810	3 240
Australia	610	610	640	1 280	2 470	2 910	3 080
New Zealand	640	570	750	1 420	1 930	2 610	2 900
Germany, Fed. Rep. of	620 ^{b/}	680 ^{b/}	920 ^{b/}	630	1 630	2 510	2 610
France	-	570	610	930	1 320	1 830	1 920
Brazil	-	600 ^{c/}	830 ^{d/}	1 140	1 390	1 320	1 490
India	-	-	-	100	150	190	170
Malawi	-	-	-	-	140	180	200

Source: Tobacco Consumption in Various Countries, edited by P.N. Lee,
Tobacco Research Council, London, 1975, 4th edition.

a/ For persons over 18 the average in 1973-1975 was 4,138.

b/ Refers to the area of Germany prior to the Second World War.

c/ 1935-1939 average.

d/ 1940-1944 average.

244. In the developing countries, consumption is no longer largely met from traditional handicraft production. For example, in India today such production provides for only one-third of the domestic market, a figure which indicates the scope for machine output and marketing penetration by corporate business.

245. Countries with the biggest tobacco consumption are China, the United States, USSR, India, Japan, Federal Republic of Germany, the United Kingdom, France, Pakistan and Italy. Factors which mould tobacco consumption are the addictive nature of the commodity, the stress of industrial life, the rising proportion of adolescents and adults in the total population, growing emancipation of women related to enhanced employment opportunities, rising real income, variations in the price of tobacco products which, in turn, have been conditioned by leaf and processing costs, manufacturers' margins, and mounting taxation. To these should be added consumer preferences moulded by the mass media, government policies and the campaigns of private anti-smoking pressure groups.

246. There has been a differential growth between leaf production and consumption, particularly as regards cigarettes. Average raw leaf utilization per cigarette

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Table 34

TD/B/C.1/205
page 103Estimated world cigarette output, 1965-1969 to 1975
(million of pieces)

Region and country	Average 1965-1969	1971	1975	1975 (per cent)	Annual growth rate 1965/69 to 1975 (per cent)
<u>World</u>	<u>2 872 958</u>	<u>3 303 718</u>	<u>3 775 394</u>	<u>100</u>	<u>3.5</u>
<u>North America</u>	<u>613 639</u>	<u>628 497</u>	<u>709 460</u>	<u>19</u>	<u>1.8</u>
USA	567 479	576 425	651 200		1.7
Canada	46 160	52 072	58 260		3.0
<u>Latin America</u>	<u>205 688</u>	<u>240 367</u>	<u>295 673</u>	<u>8</u>	<u>4.6</u>
Brazil	65 486	75 819	115 600		7.4
Mexico	36 751	44 120	45 000		2.6
Argentina	26 200	30 868	38 570		5.0
Cuba	18 720	22 500	24 000		3.2
Colombia	19 834	20 592	18 904		-0.6
Venezuela	10 239	12 259	14 300		4.3
<u>Western Europe</u>	<u>530 650</u>	<u>603 513</u>	<u>677 708</u>	<u>18</u>	<u>3.1</u>
United Kingdom	136 333	141 300	157 769		1.8
Germany, Fed. Rep. of	110 080	130 388	141 046		3.1
France	61 365	69 660	87 402		4.5
Italy	62 309	67 067	67 300		1.0
Spain	34 566	36 172	39 118		1.6
Netherlands	17 653	25 665	33 616		8.4
Switzerland	19 584	30 935	26 726		4.0
Belgium	16 286	18 760	25 415		5.7
Greece	14 306	17 387	21 462		5.2
Austria	11 071	13 020	13 037		2.1
<u>Socialist countries of Eastern Europe</u>	<u>517 441</u>	<u>615 588</u>	<u>665 707</u>	<u>17</u>	<u>3.2</u>
USSR	298 200	343 000	367 300		2.6
Poland	62 169	77 182	83 607		3.8
Bulgaria	39 788	64 468	71 400		7.6
<u>Africa</u>	<u>71 960</u>	<u>91 925</u>	<u>121 248</u>	<u>3</u>	<u>6.7</u>
Egypt	12 256	13 600	23 769		8.6
South Africa	13 346	16 884	21 451		6.1
Nigeria	5 180	8 900	10 400		9.1
<u>Middle East</u>	<u>60 534</u>	<u>74 477</u>	<u>94 812</u>	<u>3</u>	<u>5.8</u>
<u>Asia</u>	<u>844 877</u>	<u>1 014 654</u>	<u>1 172 010</u>	<u>31</u>	<u>4.2</u>
Japan	189 645	228 561	292 801		5.6
India	57 237	65 779	60 000		0.6
Indonesia	33 404	34 529	50 000		5.2
Philippines	33 060	41 988	46 990		4.5
Pakistan	31 846	21 890	26 425		-2.3
Other Asia ^{a/}	407 600	500 000	554 500		3.9
<u>Oceania</u>	<u>28 169</u>	<u>34 697</u>	<u>38 776</u>	<u>1</u>	<u>4.1</u>
Australia	23 127	28 856	31 777		4.1

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Source: Computed from data in US Department of Commerce, Foreign Agriculture Circular, FT 9-76, July 1976. The classification by region is that given in the source.

a/ Includes China and the Democratic People's Republic of Korea and the former Democratic Republic of Viet-Nam.

has shrunk since the 1950s due to highly automated equipment and the filter tip revolution.^{115/} Whereas filter tip cigarettes in the industrialized countries accounted for less than 1 per cent of the total market in the early 1950s, they leapt to 95 per cent by the mid-1970s.

247. Most filter tip brands have a shorter tobacco column than non-filter brands, and there has been a trend to lengthening the filter and reducing the circumference of cigarette columns, which has contributed to reducing leaf requirements. Longer filters are also related to more loosely packed columns and the use of almost all previously discarded waste and scrap material.

248. Tobacco leaf weight per 1,000 cigarettes has steadily fallen over the last four decades: from 3.6 lbs in the 1930s to 2.8 in the mid-1950s and 1.7 at present.^{116/} Rising tobacco leaf costs, compulsion to bring down production costs and the alleged health hazards have provided the main impetus for the shift to filter tips.

249. The length of the American cigarette has jumped from the standard pre-1940 figure of 70mm to the king-sized length of 85mm, followed by the 100mm cigarette and finally one of 120mm, but this represents more filter and looser packing, with no additional tobacco. Manufacturers are now using "puffing" techniques of the flue-cured and burley component blends, swelling the volume of the cigarette by 8-10 per cent. While there are obvious upper limits to the filter extension, there still remains the possibility of installing an "air-pocket" between the tobacco and the filter, which would further reduce tobacco leaf inputs.^{117/}

250. Although data indicate that world cigarette output continues to rise, the rate is tapering off due to a complex set of interrelated factors such as anti-smoking campaigns, inflation, ^{118/} and rising excise taxes. These socio-economic forces are also influencing the shift from higher nicotine and tar cigarettes to those with a lower nicotine and tar content. As a result of differences in relative prices between United States domestically grown and imported tobacco, the utilization rate of United States manufacturing of the latter rose from 8.3 per cent in the 1950s to more than 17 per cent by the mid-1970s.

^{115/} Filters were first used as a promotional stratagem for capturing a larger share of the consumer market. Also contributing to their success was the effect of smoking on health, which became a matter of public concern from 1953/54, culminating in the United States Surgeon General's report in 1964. Subsequently, the United States Congress, in 1966, required that each package carry a warning label. Several developed and developing countries (with the exception of the socialist countries of Eastern Europe) have followed the United States example, with a considerable time lag in many instances.

^{116/} Estimates of W. Collins of North Carolina State University (The Tobacco Reporter, December 1975).

^{117/} The Tobacco Reporter, December 1975.

^{118/} In the developed market-economy countries this is best seen in the United Kingdom, where tobacco consumption fell 5 per cent in 1975, to the second lowest level since 1953. This slide is attributable, according to trade sources, to inflationary forces and higher taxes, which raised cigarette prices to a level one-third higher than in 1974.

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251. Large-scale mechanization in the United States (mechanized harvesting, automatic tying and bulk curing, and containerization), with a concomitant trend towards concentration of production units, is geared to overcoming the cost squeeze and widening marketing margins. The same phenomenon is also discernible in Japan, where competition for labour has induced a sharp cutback in acreage and output since the 1960s. Rising costs in the United States have resulted in its share of world market of leaf tobacco slipping from over two-fifths in the late 1940s to around 22 per cent in recent years.^{119/}

C. Impact of the chemical industry

252. Although the chemical industry has always been technically associated with tobacco manufacturing, with the onset of filter tips, and of tobacco additives and substitutes, it is now even more closely interlocked with the tobacco industry, on account of the growth of an almost autonomous branch of the world "tobacco" economy - synthetic tobacco, or new smoking materials (NSM).^{120/} The implications for further concentration and marketing are far-reaching. Since 1957, the Celanese Corporation in the United States has researched the possibility of a supplement based on modified cellulose "which was a logical extension of their work in cellulose acetate filter technology and of the expertise they had developed in smoke chemistry".^{121/} The product is nicotine-free, with one-third to one-seventh of the total condensate of tobacco smoke. Research of this type is being pursued by the entire tobacco oligopoly.

253. In the mid-1960s the major drive in the quest for a tobacco substitute in the United Kingdom stemmed from the new uses for cellulose sought by the Imperial Chemical Industries (ICI) and by Imperial Tobacco's attempt to seek protection from supply fluctuations of the natural product. In addition, as the leading oligopolist in the United Kingdom it sought to be dominant in what appeared to be an enormous potential market which would give total command of the vertical chain. The marketing failure of the New Smoking Material (NSM) brand stemmed not merely from consumer reluctance to accept substitutes at the same price level as the natural product, but from the inability to remould consumer habits over the very short run.

^{119/} At present the United States Government spends around \$40 million yearly on its price support programme for tobacco, a figure which is expected to be reduced in the near future. These support prices are related to output costs which fix a floor to auction prices and thus tend to raise export prices. It is, of course, still a matter of conjecture whether the capital-intensive innovations now under way, including a wide spectrum of mechanization and processing, will offset lower labour and capital costs in the developing countries. Undoubtedly, the enormous capital resources allocated to containerization have cut transport costs sharply.

^{120/} For a comprehensive survey of this drive to synthetics, see Marshall Sitting, Tobacco Substitutes, New Jersey, 1976.

^{121/} New Smoking Material Ltd. An introduction to NSM, Tobacco Substitute, Cheshire, 1976.

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254. Although, unlike the United States Cellanese Corporation and New Smoking Material Ltd., Courtaulds is not fabricating its substitute (tabrill), it continues to work in the field of substitutes and has adequate plant capacity to market its product if and when it so desires.

255. In Switzerland another substitute, polystrep, which has a non-cellulose base, is being developed by the Polystrep Corporation. The Federal Republic of Germany's chemical transnational, Bayer, is now producing jointly with the Reemtsma Corporation a cellulose-based substitute. The introduction of new blends in the Federal Republic of Germany by two of the leading producers: Martin Brinkmann (Rothman's) and Hans Bergman (BAT) is indicative of the marketing drive.

D. Natural substitutes

256. Parallel to the impetus of the chemical substitutes has been the active experimentation with natural substitutes, including cabbages, tomato leaves, spinach, wild hydrangeas and cocoa beans. More recently, Israeli scientists are reported to have innovated a nicotine-free low-tar cigarette from lettuce. Corporate research already exceeded \$80 million in 1976. Patents have already been taken out on the use of cereal additives and the technical feasibility of making a totally non-tobacco cigarette is being actively pursued.

257. One of the consequences of the quest for lower-tar cigarettes for marketing and distribution has been an intensified battle of the brands which, from a marketing angle, is comparable to that of the 1950s. That period witnessed the transition from non-filters to filters, save that the present battle is on a much bigger scale, involving advertising costs of a vastly different order of magnitude. The outcome of this competitive struggle could very well lead to a further shrinking of the present membership of the world oligopoly. Nor is it fortuitous that the two leading members of the United States oligopoly are already dominant in the fast selling, low-tar brands.

E. Trade patterns

258. As with bananas, approximately one-quarter of world production of leaf tobacco enters into world trade. In contrast to bananas, however, most tobacco produced outside the socialist countries of Eastern Europe is caught in the transnational web even if it never enters into international trade. This is because of the high percentage of world tobacco output produced in the developing countries which is used domestically by conglomerate controlled "domestic" tobacco companies. Although leaf tobacco accounts for a minute proportion of international trade, it is concentrated in a relatively small group of exporting and importing countries, among which the United States is both the world's largest importer and its largest exporter.

1. Pattern of world exports

259. There are, at present, ten major world exporters: the United States, Turkey, India, Brazil, Bulgaria, Greece, the Philippines, Canada, Malawi and Zambia, with the developing countries accounting for over half of world leaf exports. In the immediate post-war years the United States held 40 per cent of the world export market, but this has now declined to about one-fifth; the share of the developing

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countries, in general, rose in the 1960s. Sanctions against Southern Rhodesia dramatically altered the export pattern, which may partially explain Malawi's doubling of its share of the world market by volume from the early 1960s to the mid-1970s. It could also be that some countries' enhanced share of the world market was imputable to re-exports of Southern Rhodesia tobacco.

260. Apart from Malawi, relative world market shares in volume remained more or less constant from the early 1960s to the mid-1970s. There was a marked acceleration from 1.4 per cent to 4.8 per cent per annum, in the growth of world exports by volume between the first half of this period (1961-1965 to 1966-1970) and the second half (1966-1970 to 1971-1974), with sharp fluctuations among the leading producers. The United States rate fell from 2.7 per cent for the first half of the period to around 1 per cent in the second half. However, for certain major developing country producers such as India and Brazil there was a rapid spurt in the second half. Export growth rates by value, both for the world and for individual countries, were higher than by volume in the second half of the period, and conspicuously so for India, Brazil, Zambia and Malawi.

2. Pattern of world imports

261. As may be seen from table 35, approximately six major industrialized trading groups and countries account for about 85 per cent (by volume) of tobacco leaf imports, of which by far the most important is the EEC.^{122/} Whereas the share in world imports of EEC and the USSR have fallen since the early 1960s, there has been an increase in the shares of the United States and Japan. World imports more than doubled in the same period, whereas EEC imports more than quadrupled. In the period 1966-1970 to 1971-1974 there was a marked quickening of import growth rates by value, with the exception of the socialist countries of Eastern Europe.

3. World trade matrix by origin and destination

262. The percentages shown in table 36 are based on export values of unmanufactured tobacco (SITC 121). The data cover 22 exporters ^{123/} for which the distribution of exports by destination was available for both 1966 and 1973, and also Bulgaria. For the latter country, the pattern of exports by destination was obtained on the basis of official statistics in national currency, which have been converted into US dollars. Sufficiently detailed data by destination of the exports from other major exporting countries, i.e. Southern Rhodesia, South Africa, Cuba, the Dominican Republic and China, were not available.

263. The total value of unmanufactured tobacco exports from the 23 countries covered was slightly over \$1 billion in 1966 and \$1.5 billion in 1973. As may be seen from part A of table 36, the bulk of EEC and Japanese imports came from North America. For the socialist countries of Eastern Europe over two-fifths of imports come from Bulgaria, whereas for the United States the largest supplier is Turkey. Exports of unmanufactured tobacco by the leading exporters (the United States, Canada, Turkey, Greece, India, Bulgaria, Malawi) to specified regions are shown in part B of the table.

^{122/} See Economic Commission for Europe, Agricultural trade in Europe. Recent developments (prepared in 1976). The European market for unmanufactured tobacco (ECE/AGRI/32), United Nations publication, Sales No. E.77.II.E.9.

^{123/} United States, Canada, Turkey, Greece, India, Malawi, Brazil, Indonesia, Italy, Yugoslavia, Netherlands, Mexico, Republic of Korea, Philippines, Thailand, Switzerland, Colombia, Federal Republic of Germany, Ireland, Zambia, Argentina and Japan.

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Table 35

World imports of leaf tobacco, 1961-1974

	World	EEC ^{a/}	Other Western Europe	USSR	Other Eastern Europe	USA	Japan	Canada
<u>Volume of imports</u>			(Thousand metric tons)					
Average 1961-65	911.8	421.7	96.2	90.2	65.6	82.9	19.7	1.4
Average 1966-70	1 004.0	439.1	115.6	62.8	61.6	108.8	31.7	2.0
Average 1971-74	1 213.1	508.3	145.7	83.2	63.3	137.2	60.0	3.1
<u>Proportion of world total</u>			(Per cent)					
1961-65	100	46	11	10	7	9	2	-
1966-70	100	44	12	6	6	11	3	-
1971-74	100	42	12	7	5	11	5	-
<u>Growth of volume of imports</u>			(Per cent per annum)					
1961-65 to 1966-70	1.9	0.8	3.7	-7.0	-1.3	5.6	10.0	7.4
1966-70 to 1971-74	4.3	3.3	5.3	6.4	0.6	5.3	15.2	10.2
<u>Value of imports</u>			(\$ million)					
Average 1961-65	1 174.2	598.3	107.5	74.1	74.6	115.5	35.1	4.6
Average 1966-70	1 368.0	651.8	137.9	82.4	85.0	135.0	60.2	4.7
Average 1971-74	1 950.1	866.9	217.9	135.3	90.4	176.8	138.3	6.8
<u>Growth of value of imports</u>			(Per cent per annum)					
1961-65 to 1966-70	3.1	1.7	5.1	2.1	2.6	3.2	11.4	0.4
1966-70 to 1971-74	8.2	6.5	10.7	11.6	1.4	6.2	20.3	8.6

Source: Computed from FAO, Trade Yearbook, various issues.

^{a/} The present nine member States throughout.

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Table 36

Import and export trade patterns for unmanufactured tobacco, 1966 and 1973

A. Percentage of total shipments^{1/} of tobacco, unmanufactured (SITC 121)
to importing markets from selected exporting countries

To	USA and Canada		ECR ^{2/}		Other W. Europe		Japan		Socialist countries of Eastern Europe		Rest of the world		Total	
	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973
USA and Canada	3.55	3.16	61.34	57.91	67.08	64.19	82.76	81.72	2.53	1.85	73.26	61.67	51.19	40.90
Japan	17.68	17.76	7.62	7.97	3.47	4.74	4.79	4.57	12.47	10.01	1.97	2.05	10.74	8.52
ECR ^{2/}	51.50	48.27	9.73	10.33	7.71	9.21	11.91	9.37	12.11	15.39	4.73	5.76	11.15	7.12
Other	14.46	14.00	1.94	4.93	0.49	0.13	3.05	4.79	3.37	10.04	2.41	6.72	2.78	11.35
Other W. Europe	1.77	1.77	0.40	1.17	1.70	1.76	1.77	1.39	11.07	13.19	2.61	3.41	6.82	4.77
Socialist countries of Eastern Europe	1.41	1.18	1.09	3.28	1.27	1.75	1.75	0.75	0.00	1.16	3.60	7.74	1.25	1.11
Rest of the world	11.75	12.01	17.04	21.74	12.73	21.16	11.59	7.50	13.17	11.74	11.78	17.07	15.44	22.71
Total ^{3/}	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

B. Percentage of total exports of tobacco, unmanufactured (SITC 121)
from selected exporting countries to selected importing countries

To	USA and Canada		ECR ^{2/}		Other W. Europe		Japan		Socialist countries of Eastern Europe		Rest of the world		Total	
	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973	1966	1973
USA and Canada	64.77	64.96	61.33	57.90	11.43	20.15	7.59	13.78	0.55	0.36	18.23	17.85	100.00	100.00
Japan	15.01	14.30	18.34	21.25	1.91	3.52	2.14	4.74	15.10	10.91	2.36	3.29	100.00	100.00
ECR ^{2/}	11.71	12.83	45.00	29.71	1.53	5.45	1.27	14.83	22.23	29.41	5.45	15.77	100.00	100.00
Other	9.46	9.46	16.09	44.07	0.15	0.20	5.93	7.24	15.17	39.54	12.03	12.74	100.00	100.00
Other W. Europe	0.46	0.17	12.36	13.14	5.75	1.97	1.50	2.08	12.19	67.88	4.98	7.02	100.00	100.00
Socialist countries of Eastern Europe	0.00	0.30	0.31	52.46	0.21	4.16	0.00	1.24	0.00	0.00	35.48	35.85	100.00	100.00
Rest of the world	12.46	17.35	55.65	54.59	10.89	12.00	1.62	2.34	9.39	4.97	9.67	8.15	100.00	100.00
Total ^{3/}	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: United Nations Statistical Papers, Series D, and national sources for Bulgaria.

1/ Exports to major markets.

2/ Major exporters of tobacco (unmanufactured), including Bulgaria.

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F. Trends in export prices of tobacco leaf

264. World prices of leaf tobacco rose during the post-war period, particularly under the impact of international demand and United States price support, which tended to confer a degree of relative price stability to this commodity. Other major producers, such as Canada, India, Greece and Turkey, also had recourse to price support programmes. Prices are determined at open auctions in North America and Southern Africa, by State trading in Bulgaria and by private treaty in Greece and Turkey.

265. The average world export unit value per ton in 1973/74 was around \$1,611, but there were large variations among countries, ranging from \$828 for the Philippines to \$2,639 for the United States. The average export unit value from the developing countries was well below the world average. World export unit values rose by around 8 per cent between 1961 and 1974, the trend being much the same for all countries. "Real" prices, however, dropped sharply between the early 1960s and the mid-1970s, with the exception of Brazil, Malawi and Zambia.

G. Cigarette exports

266. The trade matrices for cigarettes in table 37 are based on data for nine major exporters, representing 89 per cent of world exports of cigarettes in 1975. Total world exports in 1975 were 226 billion pieces, but total recorded world imports were only 161 billion pieces. This disparity of 29 per cent stems mainly from the contraband (bootleg) trade, which likewise explains similar disparities in previous years (29, 32 and 28 per cent respectively in 1972, 1973 and 1974).

267. The last row in part B of table 37 indicates that the largest exporters are Bulgaria (28.9 per cent of total exports from the nine major suppliers in 1975); the United States (24.8 per cent) and the United Kingdom (14.7 per cent), followed by the Federal Republic of Germany and Switzerland. Part A of the table shows that one importer alone - the USSR - accounted for 86 per cent of Bulgarian exports. For the United States, the major export markets were Western Europe (21.7 per cent); for the United Kingdom they were Asia (21.6 per cent) and Western Europe (21.7 per cent).

268. The matrices show that not only do the TTCs largely dominate production in developing countries, through their brands and subsidiaries; they are also the almost exclusive origin (apart from Bulgaria's exports to the socialist countries of Eastern Europe) of world trade in cigarettes, both legal and bootleg.^{124/}

H. Trade barriers

1. Import duties

269. The range of import duties on unmanufactured tobacco varies according to country of import and variety of leaf. An important feature of tariffs on unmanufactured tobacco is that they are either specific or ad valorem, or a

^{124/} It does not follow that the TTCs are necessarily themselves directly involved in the bootleg traffic, constituting approximately one-third of the total volume of world trade in cigarettes.

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Table 37
Import and export trade matrix for cigarettes, 1975

A. Percentages of total exports of cigarettes from selected exporting countries and territories by countries and regions of destination

From	USA	Belgium/ Luxem- bourg	Bulgaria	Hong Kong	United Kingdom	France	Germany, F.R. of	Switzer- land	Nether- lands	Total g/ 9 major exporters
Western Europe	21.7	95.0			21.7	40.3	91.4	89.8	98.5	35.3
Belgium/Luxembourg	15.1				6.6		4.2	9.5	10.7	6.5
Italy		4.0				17.6	55.3	7.1	82.3	11.1
Netherlands		75.5			4.4		18.4	4.6		6.2
France		13.4			4.5		6.3		5.4	2.2
Switzerland							3.5			0.3
Eastern Europe		0.4	86.1					1.4		25.0
USSR			86.1							24.9
Asia total	38.7			92.2	27.6					14.8
Japan	7.1									1.8
Hong Kong	8.8				5.0					2.9
Middle East	22.8				22.6					9.0
Africa		1.3			10.3	19.2				2.2
Latin America	12.6					2.8				3.2
Pacific territories						3.2				0.1
Not specified	27.0	3.3	13.9	7.80	40.4	34.5	8.6	8.9	1.5	19.5
Total world	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

B. Percentages of total shipments^{a/} of cigarettes to importing markets from selected exporting countries and territories

From	USA	Belgium/ Luxem- bourg	Bulgaria	Hong Kong	United Kingdom	France	Germany, F.R. of	Switzer- land	Nether- lands	Total g/ 9 major exporters
Western Europe	15.3	13.3			9.0	3.6	20.7	20.1	18.0	100.0
Belgium/Luxembourg	57.7				14.9		5.1	11.6	10.7	100.0
Italy		1.8				5.0	40.0	5.1	48.1	100.0
Netherlands		60.0			10.5		23.7	5.9		100.0
France		30.4			30.3		23.2		16.1	100.0
Switzerland							100.0			100.0
Eastern Europe		0.1	99.5					0.4		100.0
USSR			100.0							100.0
Asia total	64.9			7.8	27.4					100.0
Japan	100.0									100.0
Hong Kong	74.8				25.2					100.0
Middle East	63.1				36.9					100.0
Africa		2.9			69.4	27.7				100.0
Latin America	97.2					2.8				100.0
Pacific territories						100.0				100.0
Not specified	34.4	0.9	20.6	0.5	30.4	5.6	3.5	3.6	0.5	100.0
Total	24.8	4.9	28.9	1.2	14.7	3.2	8.0	7.9	6.5	100.0

Source: Computed from data in United States Department of Commerce, Foreign Agriculture Circular, Tobacco, FT 3-76, July 1976.

NOTE: The percentages are based on incomplete distribution of exports by destination and should be considered merely as indicators of the main directions of world trade in cigarettes.

a/ These exporters accounted for 89 per cent of total world exports of cigarettes in 1975.

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combination of the two. Most countries in North America, the Caribbean, Africa and Asia apply specific rates of duty, whereas in Latin America and Western Europe ad valorem rates are more typical. Specific rates facilitate imports of the lower-priced types of leaf, most of which are exported by the developed countries.

270. The incidence of customs duties on imports varies considerably: from ad valorem rates or their equivalent of zero in Norway and Switzerland to very high rates in North America, the EEC, Australia, Greece and Portugal. There are no duties on imports by the State monopolies in Japan, Austria, Sweden and Spain, but duties are extremely high for other importers in these countries. As for other products, tariffs increase with the degree of processing. In the United States, for example, duties varied in 1974 from 18 per cent in the case of unstemmed oriental leaf, which does not compete directly with national output, to 26 per cent for unstemmed flue-cured and burley, and 31 per cent for scrap, both of which do compete.

2. Quantitative restrictions

271. The basic goal of quantitative restrictions on tobacco is to limit the range of consumer choice; they may also contribute to the creation of preferential markets. Quantitative restrictions may assume one or more of the following forms: import embargoes, import quotas (fixed or variable), import licensing and blending regulations.

272. Increasingly, blending regulations have acquired a new impact in both the developed and the developing countries. For example, the following countries prescribe minimum domestically grown tobacco shares for domestic manufactures: Philippines (80 per cent); Australia (50 per cent); New Zealand (30 per cent); Ecuador (65 per cent); and Switzerland (50 per cent).

3. Preferential arrangements for certain producers

273. One of the salient features of world leaf exports is the existence of preferential arrangements. The most significant preferential system is that provided by the EEC for its associate member States (Greece and Turkey), whose leaf tobacco enjoys duty-free treatment. In the United Kingdom, preferential imports from Canada, which traditionally entered under Commonwealth preferences, are now being phased out with the inception of the EEC common customs tariff. Among leading world exporters Turkey not only enjoys associate EEC membership, but also has established bilateral trade relations with several other countries, notably the socialist countries of Eastern Europe and Asia. India, which traditionally has received preferential Commonwealth treatment in the United Kingdom market, is now actively diversifying its trade links.

274. The trade barriers brought about by the preferential structure of the EEC are of particular importance in view of the Community's large share of world leaf imports. The importance of EEC preferential trade acquired a new dimension when Turkey and Greece became associate members and with the signature of the Lomé Convention on 28 February 1975, which now covers 52 ACP States. Italy and France produce most of the EEC's output, with the Federal Republic of Germany

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and Belgium accounting for less than 10 per cent each. Most of the Community's small intra-trade in leaf tobacco consists of Italian exports, the remainder being supplied by France and the Federal Republic of Germany, and of re-exports.^{125/}

275. Since the common customs tariff was not considered an adequate instrument to cover the wide difference between EEC production costs and world prices, two policy guidelines were instituted: the fixing of a norm and an intervention price for tobacco leaf. For each of the 20 leaf varieties grown in the Community, norm and intervention prices are fixed each year, preceding the harvest. Intervention prices are fixed by the Council of Ministers at the level of 90 per cent of the norm or target price and constitute a guaranteed producers' price. The norm or target price is also set by the Council, but serves only as an indicative price.^{126/}

276. Since the intervention agencies in each country must purchase all leaf tobacco offered to them at the intervention price, the target, and hence norm, prices for different leaf qualities are designed to steer output into desired directions, taking into account changes in market conditions. In the widest context of that term they can be considered as political prices.

277. Target prices are considerably above the price level of competing imports even after payment of duty, and are set at a level that ensures that prices paid to producers are kept close to the norm price.

278. Since norm prices for Community leaf are well above import prices from third countries even after payment of duty a premium is paid to buyers of domestic leaf to prevent the accumulation of unsold stocks with the intervention agencies. The premium is calculated so as to ensure that prices paid to producers are kept close to the norm price. Eligible for the premium also is Community-grown leaf that has undergone first processing and market preparation. If, for a particular crop, the quantities of a variety taken over by the intervention agencies exceed a certain percentage of total output or a fixed quantity, the Council of Ministers may take pricing or other measures for the next crop year, including a lowering of the intervention price and exclusion of some or all of the leaf qualities of the variety in question from intervention buying. Its powers of intervention do not extend to the actual production process itself, but the Commission is required to submit a special report to the Council, including proposals for appropriate counter-measures (which may include lower norm prices and hence buyers' premiums) whenever total output of all varieties for which buyers' premiums are granted exceeds by a certain percentage the average of the previous three crop years.

279. Although there are no import restrictions in the six original member countries of EEC, in France and Italy there continues to be a single importer. However, if imports into the Community from third countries are considered to create, or threaten to create, serious market disturbance, Council regulation 727/70 establishing the common policy, which contains a safeguard clause, can be resorted to.

^{125/} See ECE/AGRI/32 (op.cit.) for further details.

^{126/} For a fuller description than is given here of the EEC common agricultural policy on tobacco, which came into force in April 1970, see FAO, Bulletin of Agricultural Economics and Statistics, December 1975.

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Tobacco is also included in the Community's scheme of preferences under the GSP.^{127/} Customs duties have progressively been removed in trade between the original six and the three new member countries, as well as among the new Member States themselves. Alignment to the common customs tariff was completed by the beginning of 1977.

4. Taxation

280. In all developed market-economy countries various forms of taxation are applied to tobacco: excise duties, turnover sales tax, value added tax, remittance taxes, customs stamp tax, statistical services tax, luxury tax, and so forth. The United Kingdom and Ireland are special cases since tobacco taxes account for a significantly high share of total indirect taxation.

281. In most developed market-economy countries, taxation accounts for 60-90 per cent of the retail price of manufactured tobacco, and is thus an important factor in tobacco price formation explaining the considerable leverage on governments by the TTCs.

^{127/} In 1975, the tariff quota was set at around 30,000 tons of leaf, with the United Kingdom share at about 65 per cent. For 1976, the quota was fixed at 38,000 tons and the preferential tariff further reduced. For 1978 the quota was enlarged to 60,000 tons.

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Chapter VI

THE ROLE OF MARITIME TRANSPORT

A. Maritime transport and the tobacco transnational conglomerates

232. Maritime transport plays a significant role in the movement of raw tobacco from producing to manufacturing countries, but a lesser one with regard to manufactured tobacco. Approximately 26 per cent of world unmanufactured tobacco output is traded internationally and about 90 per cent of this trade is seaborne. In contrast, only about 6 per cent of world cigarette output and other manufactured tobacco products enters into world trade, of which about 60 per cent is seaborne (and under 50 per cent if seaborne trade within Western Europe is excluded.) In 1975, unmanufactured tobacco represented some 92 per cent of the total volume of 1.2 million tons of unmanufactured tobacco, cigarettes, cigars and other manufactured tobacco transported by sea.

233. With few exceptions, control of maritime transport used is within the ambit of the transnational leaf buyers and the large TTCs. Transnational leaf buyers account for 85-90 per cent of tobacco purchased directly in the producing countries. When reselling to importing countries on c.i.f. terms they are responsible for shipping arrangements; when they resell on f.o.b. terms decisions on shipping are taken by buyers, who are generally large tobacco conglomerates.

234. These conglomerates also dominate shipping arrangements for much of the world trade which they handle by making direct purchases in the producing countries. In selling to the TTCs or smaller tobacco manufacturing companies, the trading companies normally use f.o.b. terms for sales to Western Europe, and c.i.f. or c. and f. terms to other destinations. The varying conditions under which tobacco is sold affect only the position between the transnational leaf buyers and the tobacco conglomerates. What is of central significance is that tobacco producers in developing countries exert no control, or even influence, over the maritime transport of their output. Such domination is a microcosm of the larger pattern of control of shipping between developed and developing countries. The latter's share in the tonnage of the world fleet of container ships is a mere 1.5 per cent, and of ships of all types 7.5 per cent.^{128/} Freight rates imposed by major shipping conferences are threatening tobacco exports from the Philippines, for example, because the high rates have pushed up tobacco prices.^{129/}

235. Where State tobacco monopolies exist, these control the shipment of their imports either by buying under f.o.b. terms (which is reportedly the case for the socialist countries of Eastern Europe in their trade with other areas) or by buying under c.i.f. contracts whereby the buyer determines the method of shipment.

^{128/} "Review of Maritime Transport 1976. Report by the UNCTAD secretariat" (TD/B/C.4/169), to be issued as a United Nations publication (TD/B/C.4/169/Rev.1). The share of the developing countries is, however, larger in general cargo ships (14.8 per cent).

^{129/} This point was stressed during a recent meeting of exporters with government officials and the Philippine Shipping Council, following the announcement by the Far East Freight Conference and the European conference lines of another freight-rate increase. (See Tobacco Reporter, February 1977, p.12).

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286. While maritime costs do not normally appear to influence trade flows in tobacco, they do, however, influence the prices which buyers are prepared to pay. Thus, from the perspective of developing countries, particularly those which are far from the main markets, the maritime transport cost is of prime importance for operational profitability. It is therefore essential to examine present levels of freight rates to determine whether there is any scope for reducing transport costs.

B. Patterns of seaborne trade

287. Estimated seaborne trade in unmanufactured tobacco in 1973 is shown in table 38. Since national foreign trade statistics do not distinguish different modes of transport, the figures must be treated as approximate, as several trade routes can be served either by sea or by land transport. Estimates include shipments which are believed to have been made by short-haul ferry services, and are thus not confined to ocean carriers. Of an estimated total seaborne trade

Table 38

Estimated seaborne trade in unmanufactured tobacco, 1973
(1,000 metric tons)

<u>From \ To</u>	<u>Western Europe</u>	<u>Socialist countries of Eastern Europe</u>	<u>North America</u>	<u>Japan</u>	<u>Far East (excl. Japan)</u>	<u>Others</u>	<u>Total</u>
North America	208.7	1.0	-	30.6	16.8	45.1	302.2
India and Far East	84.6	32.1	22.5	10.6	7.4	70.1	227.3
of which: India	29.4	20.7	-	4.4	0.1	28.5	83.1
Indonesia	10.3	-	4.4	0.2	-	23.1	38.5
Republic of Korea	9.1	-	3.8	1.1	21.1	6.1	22.2
China	10.8	8.0	0.3	0.3	4.1	-	23.5
Others	24.5	3.4	14.0 ^{a/}	4.6 ^{b/}	1.1	12.4	60.0
Mediterranean	62.4	-	75.3	10.6	0.2	15.1	163.6
of which: Turkey	36.6	-	58.7	4.5	0.1	4.6	104.5
Italy	0.3	-	4.0	0.6	-	3.2	8.1
Others	25.5	-	12.6	5.5	0.1	7.3	51.0
East/Southern Africa	72.2	-	3.0	0.6	1.1	41.1	118.0
South America (East Coast)	65.4	-	22.5	-	-	5.0	92.9
Caribbean and Central America	21.6	-	12.3	2.2	-	39.3	75.9
Socialist countries of Eastern Europe	10.4	-	0.2	1.3	-	28.5	40.4
Western Europe	15.1	-	-	-	-	2.4	17.7
Others	28.6	27.4	21.0	0.6	1.0	0.6	79.2
Total	569.0	60.5	156.8	56.7	26.5	247.7	1 117.2

Sources: Estimates by the UNCTAD secretariat based on: Commonwealth Secretariat, Tobacco Intelligence, and OECD, Trade by commodities, Market Summaries, Series C.

- a/ Essentially from the Philippines.
b/ Essentially from Thailand.

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of 1.1 million tons, some two-thirds was carried along nine major sea routes linking the leading exporting and importing areas, as shown in table 39 below.

Table 39

Seaborne tobacco trade in 1973 on nine major routes

<u>Routes</u>	<u>Tonnage carried</u>	
	<u>'000 tons</u>	<u>Per cent</u>
North America to Europe	209	28.8
India and the Far East to Europe	116	16.0
Latin and Central America to Europe	87	12.0
Mediterranean to North America	75	10.3
Southern and East Africa to Europe	72	9.9
Mediterranean to North Europe	62	8.6
North America to the Far East	47	6.5
Latin and Central America to North America	34	4.8
India and the Far East to North America	22	3.1
Total	734	100.0

288. For each of these nine major sea routes there is more than one shipping route. Europe, for example, is connected with different parts of the North American coastline by several different routes, each with its own shipping services. The above data do not, therefore, give a detailed picture of cargo flows of different shipping services. What emerges from the table is the dominant position of Europe, which accounts for about 75 per cent of the unmanufactured tobacco shipped on the main sea routes and about 56 per cent of all seaborne trade.

289. Table 40 shows the estimated world seaborne trade in manufactured tobacco, some two-thirds of which consisted of cigarettes, 29 per cent of tobacco manufactured for smoking, chewing or to be used as snuff; and 4 per cent of cigars and cheroots. This table, and also table 39, must be examined in relation to the trade matrices for unmanufactured tobacco and cigarettes in the preceding chapter.

C. Shipping services

290. Charter or tramp services are used for unmanufactured tobacco by importing agencies in Spain and the USSR, and occasional charter shipments have been reported from India to the United Kingdom, from North America to Europe, and from India and the Far East to continental Europe. The remaining trade in unmanufactured tobacco and the entire trade in manufactured tobacco is carried by liner services, which tend to be dominated by shipping companies of developed countries.

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Table A0

World seaborne trade in manufactured tobacco, 1973
(metric tons)

From \ To	Western Europe	Socialist countries of Eastern Europe	North America	Oceania	Far East (excl. Japan)	Japan	Others	Total
Western Europe	20 257 ^{a/}	111 ^{b/}	5 275	2 047	2 906	500	16 286	47 440
North America	9 650	751	1 000	1 171	6 147	2 129	20 453	41 310
Caribbean and Central America	495	n.a.	125	7	n.a.	n.a.	n.a.	625
Far East	39	n.a.	32	541	139	n.a.	n.a.	751
Other countries	1 316	9	71	807	n.a.	17	n.a.	2 220
Total	31 744	871	6 501	4 575	9 192	2 726	36 739	92 346

Sources: Compiled by the UNCTAD secretariat on the basis of United Nations, World Trade Annual 1975, and Statistical Papers, Series D. The data basically cover estimated seaborne imports of OECD countries plus exports of those countries to other countries. Trade among non-OECD countries is not covered in the sources.

a/ Excluding trade among continental Western European countries, which has been assumed to be overland.

b/ Excluding trade between continental Western Europe and the socialist countries of Eastern Europe, which has been assumed to be overland.

291. The preference for the widespread use of liner shipping for unmanufactured tobacco hinges on the need for careful handling and stowage, regular and frequent shipments to avoid stockpiling, and the relatively small quantities involved. The reasons given for using conference lines, rather than non-conference ones, are usually that the latter are often unable to provide the full range of service required, and that shippers need to confine their shipments to conference vessels if they wish to retain their loyalty rebates. The quality of service provided by some non-conference carriers has also been questioned, and, in some instances, use of non-conference vessels is reported to have raised insurance problems. While there is some validity in these claims, they basically reflect the official apologia of conference lines, which have systematically opposed what they consider to be the intrusion of third-world shipping interests into international trade.

292. The fact that charter or tramp shipments are used occasionally by various importing countries suggests that cargo deterioration is not a crucial reason for rejecting the possibility of adopting more economical charter or contract methods. The crucial issue relates to the tonnage moved and the frequency of service required for the various port-to-port movements.

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293. Tonnages involved on any one trade route are relatively small by the standards generally adopted in considering potentially bulkable cargoes, with the possible exception of the routes from North America to Europe. Tonnages on any one service are even smaller than would appear from table 39, since several of nine major routes distinguished in that table actually embrace more than one 'sub-route', each with its own separate shipping service. Control over liner tonnages in the tobacco trade is concentrated to a much greater extent than normal (i.e. in the hands of a few transnational corporations and conglomerates), which should facilitate adoption of bulking techniques for smaller tonnages.

294. From the available evidence it cannot be concluded whether more economical bulking methods could be adopted in any of the specific trade routes,^{130/} but the possibilities of using non-liner services do not appear to have been accorded serious consideration in most sectors of the shipping industry. This indifference on the part of those who control maritime transport partly stems from the fact that liner services are a convenient method requiring minimum organization by shippers. Moreover, higher freight costs are borne by domestic growers in the form of lower f.o.b. prices, while unpublished loyalty rebates raise shipper margins and complicate national cost structure investigations.

295. It has been noted above (see chapter II) that certain TTCs have interests in the liner companies which transport their tobacco. In particular, Sea Land Service is a wholly-owned subsidiary of R.J. Reynolds, operating between North America and Europe, the Far East, the Caribbean and Central America; furthermore, Reemtsma Cigarettenfabriken GmbH appears to have links with one or more shipping lines in the Federal Republic of Germany.^{131/}

D. Freight rates

296. Table 41 shows freight rates for unmanufactured tobacco on selected routes in the period 1969-1976. These rates, expressed in US dollars per metric ton, are, with one exception, based on the conference liner rates payable by shippers, the exception being the India-USSR route, where f.i.o. (free in and out) rates are in force which, unlike normal liner rates, exclude the costs of loading and discharge. In conformity with the general trend for commodity freight rates, all these rates rose steeply during 1969-1975, followed by a slight decline in 1976.

^{130/} For details of the factors which should be taken into account in considering the feasibility of adopting bulking techniques, see "Protection of shipper interests: Bulking of cargoes. Report by the UNCTAD secretariat" (TD/B/C.4/127/Supp.4), reprinted in TD/B/C.4/176, a forthcoming United Nations publication.

^{131/} Commerzbank, *Wer gehört zu wem*, 11th edition, and Annual reports of selected shipping lines in the Federal Republic of Germany.

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Table 41

Freight rates for unmanufactured tobacco, 1969-1976: selected routes
(US dollars per metric ton)

Route	1969	1971	1973	1975	1976	Increase 1969-1976 (per cent)
India - UK	91.2	119.2	130.2	192.2	160.4	75
India - Continental Europe (Bordeaux-Hamburg Range)	91.2	119.2	130.2	220.7	197.8	115
India - USSR ^a	39.5	45.1	46.1	71.6	55.1	39
Philippines - USA (Pacific coast)	108.7	128.7	159.2	216.5	201.5	85
Philippines - USA (Atlantic/Gulf coasts)	135.4	155.4	185.9	256.5	255.4	89
Turkey - USA	44.0	..	..	..	90.6	106
Turkey - Federal Republic of Germany	39.5	45.4	77.5	..	88.4	124
East Africa - UK	63.3	69.6	107.3	150.5	113.7	80
East Africa - Continental Europe	63.3	69.6	107.3	183.4	160.8	154
Brazil - Continental Europe (Bordeaux-Hamburg Range)	65.0	85.1	125.2	165.1	151.7	134
Paraguay - Continental Europe (Belgium-Federal Republic of Germany)	94.5	82.2	82.2	165.1	160.7	70
Paraguay - USA (East Coast)	90.9	103.5	120.0	179.3	..	..
USA Gulf ports - Continental Europe (cases, cartons)	44.5	50.0	60.8	83.5	93.5	121
USA (South Atlantic ports) - Continental Europe (cases, cartons)	43.0	47.0	56.8	84.8	38.8	106

Source: Rates supplied by liner conferences or governments and converted to a uniform basis by the UNCTAD secretariat.

a/ F.i.o. rates which exclude the cost of loading and discharging.

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297. Table 42 shows the evolution of freight rates for unmanufactured tobacco as a percentage of average leaf unit values for 1969-1974. Detailed figures are contained in annex tables III and IV. With few exceptions, freight costs from the developing countries increased more rapidly during 1969-1974 than the value of tobacco purchased from those countries. The average export unit value for Indian tobacco rose by 49 per cent, whereas the gross freight rate rose by 119 per cent. The sample of tobacco freight rates is too small to permit a comparison with trends in liner conference rates in general, but it is apparent that freight rates for tobacco have been rising faster than export prices of leaf tobacco.

Table 42

Unmanufactured tobacco: freight rates as a percentage
of average leaf export unit values, 1969-1974

Route	Percentage share			Percentage increase 1969-74
	1969	1973	1974	
India-Europe	7.5	9.6	11.0	46.7
Thailand-Europe	31.7	36.4	38.2	20.5
East Africa-Europe	5.5	6.2	5.4	-1.8
USA-Europe	2.7	3.2	3.0	11.1
United States-Japan	6.4	8.5	10.0	56.0
Dominican Republic-Europe	7.3	8.2	10.2	39.7
Turkey-USA	3.6	..	..	..

Source: Annex table IV

298. No attempt has been made to calculate freight rates for manufactured tobacco, since the tobacco is carried largely on trade routes in which containerization has been introduced; extensive use is being made of door-to-door transport arrangements (i.e., transport of goods as an entity from sellers to buyers), and it would be difficult to isolate freight payments imputable to the sea leg of such movements. As already noted, seaborne transport of manufactured tobacco is not significant in the total picture.

E. Restructuring of tobacco freight markets

299. As a general rule, rising freight rates can only be overcome by two methods: either by adopting bulking techniques and switching to contract or charter shipping methods, or by intensive bargaining with the liner conferences. Experience indicates that such bargaining is only likely to be effective if shippers investigate alternative shipping methods and resort to those alternatives should they reach a deadlock in their negotiations with the conferences. Theoretically, such initiatives can be taken either by consignees

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or by consigners. Moreover, the only known instances in which importers of primary products have taken effective action to cut freight rate levels are those in which the importers in question have had a vested interest in maintaining the competitive position of the primary commodities vis-à-vis competitive products, usually synthetics.

300. As tobacco is under no immediate risk of competition from synthetics (although this situation could change with the impact of low-tar brands), there are no substantial grounds for supposing that the transnational leaf buyers and tobacco conglomerates which dominate the maritime transport of tobacco will be any more active than in the past in seeking to keep down freight rates.

301. These considerations point to the need for a stronger organization of tobacco producers, so that they may press their claims on issues which determine the profitability of their operations. They also argue for more effective co-operation among producers, essentially among developing countries who could consider setting up their own shipping organizations.

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Annex I

SUPPLEMENTARY TABLES AND CHARTS

Charts

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<u>Table</u>	
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III	Freight rates for cigarettes on selected routes, mid-1976
IV	Estimated tobacco freight rates and export prices (unit values), 1969-1974

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THE ACCO REPORTER

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Notes: The terminology is that of the *Fedexco Reporter*.

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Consulted by Tobacco Research

Annex table I

Tobacco manufacturing: basic indicators in selected countries and territories, 1972

Country or territory	Number of establishments	Number of employees	Wages and salaries of employees	Number of operatives	Wages and salaries of operatives	Gross output in producers' values a/ b/	Value added in producers' values c/ d/	Index of production
		(thousands)	(millions of national currency units)	(thousands)	(millions of national currency units)			(1970 = 100)
Argentina	...	6.0	174.9	4.1	94.9	...	...	...
Australia	11	6	79	4	18	259	126	102
Austria	12	3.2	247	1.6	147	6 840	5 930	107
Brazil e/	269	15	110	...	...	1 839	1 101	...
Bulgaria	24	26.9	1 605 f/	23.5	1 534 f/	...	...	...
Canada	25	9	89	7	56	625	266	108
Colombia	26	3.5 g/	103 g/	...	...	1 894	1 363	130
Egypt	37 g/	16.4 g/	5.7 g/	...	...	141.3 g/	17.3 g/	146
Germany, Fed. Rep. of	157	27	500	20	300	12 400	...	108
Guatemala	24	0.735	2.0	0.5	0.66	13.2 g/	2.4 g/	111
India g/	1 507	...	163	100	105	2 899	721	...
Iran g/	3	4.4	819	3.5	705	8 700 g/	7 570 g/	...
Italy	...	13	56.0 h/	16	42 000	266 i/	96 000	92
Japan	559	41	90.0 h/	...	...	1 066 j/	...	120
Kenya	1	...	0.0	...	...	5.5	1.7	...
Malawi g/	8	...	2.1	...	...	20.5	3.4	...
Mexico	32	5.7	223	3.3	92	3 887	2 852	96
Netherlands	...	...	184 g/	...	...	1 856 g/	408 g/	118
Panama	7	0.3	1.3	0.2	0.26	14.3	10.3	103
Peru	3	0.8	102	0.5	42	2 848	2 405	132
Southern Rhodesia g/	13	4.5	6.1	...	...	20.4	11.3	...
South Africa g/	17	4	6	...	...	66	25	117
Sri Lanka g/	7	...	...	...	...	346	90	112
United Kingdom	70 g/	40	72	31	50	640	287	108
United States	...	48	160	59	440	6 350	2 900	111
Venezuela	70	2.5 g/	40 g/	2.1 g/	29 g/	685	...	136

Source: Compiled from United Nations Yearbook of Industrial Statistics, 1974 edition, Vol. I, General Industrial Statistics, (United Nations publication, Sales No. E.77.XVII.2).

a/ Factor values for Australia, Canada, India, Kenya, Malawi, Southern Rhodesia, South Africa and United Kingdom.

b/ Gross output: Brazil, Colombia, Iran, Italy, Japan, Sri Lanka and United States.

c/ Factor values for Australia, Canada, India, Kenya, Malawi, Southern Rhodesia, South Africa, United Kingdom and United States.

d/ Value added: Brazil, Colombia, Iran, Italy and Sri Lanka.

e/ 1972.

f/ Average annual payment per employee (in levas).

g/ 1970.

h/ 1969.

i/ Billions of national currency units.

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Annex table IIIndicators of the United States wholesale tobacco trade in 1975

1. Number of primary wholesalers <u>a/</u>	2 048
2. Number of salesmen	16 921
3. Number of commercial vehicles	30 924
4. Number of retail outlets selling tobacco products	1 397 063
5. Estimated wholesale value of products distributed (\$ million)	<u>12 425</u>
(a) Cigarettes	8 264
(b) Cigars	439
(c) Tobacco (smoking, chewing and snuff)	144
(d) Confectionery, chewing gum and fountain syrups	1 045
(e) Pipes	35
(f) Other smokers' articles	61
(g) Razor blades and shaving accessories	167
(h) Paper goods	144
(i) Leather goods	33
(j) Proprietary drugs	976
(k) Beer, wines and liquors	136
(l) Matches	38
(m) Miscellaneous	944
6. Number of grocery, drug and miscellaneous other wholesalers handling tobacco products	1 200
7. Total grocery, drug, and miscellaneous other wholesalers' gross sales of products (a), (b), (c), (e), (f) (\$ million)	8 943

Source: National Association of Tobacco Distributors, NATD: Co-ordinator, New York 1976.

a/ A primary tobacco wholesaler is defined as one who is on the direct buying list of the major cigarette and cigar manufacturers.

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Annex table III

Freight rates for cigarettes on selected routes, mid-1976
(US dollars per metric ton)

Route	Estimated freight rate per ton ^{a/}	Remarks
USA (Gulf) - Continental Europe	218.5	port/port basis
USA (South Atlantic ports) - Continental Europe	129.0	house/house basis
USA (North Atlantic ports) - Spain (Mediterranean ports)	297.8	port/port basis (less 10% for house/house containers)
USA (North Atlantic ports) - Spain (Bilbao)	192.0	
USA - UK	241.4	
USA (Pacific coast) - Japan	272.3	breakbulk or shipper loads containers
USA (Pacific coast) - Hong Kong	263.3	
USA - Kuwait	516.0	
USA - Saudi Arabia (Dammam)	980.7	including port congestion surcharge
Continental Europe - USA (Gulf ports)	150.0	port/port basis
Continental Europe - USA (South Atlantic ports)	144.0	house/house basis
UK - USA (Gulf ports)	231.5	
UK - Australia	437.3	container
UK - Australia	412.0	conventional

Source: Compiled by the UNCTAD secretariat on the basis of information provided by the shipping conferences concerned or individual lines engaged in the trades.

^{a/} Original rates on a weight/measurement basis have been converted to a weight basis assuming 1 ton equals 3.4 m³ (120 cubic feet).

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Annex table IV

Estimated tobacco freight rates and export prices
(unit values), 1969-1974

(US dollars per lb in June of each year)

Route	Freight rate			Percentage change
	1969	1973	1974	1969-74
<u>India - Europe</u>				
Freight) Net	.020	.043	.048	+71.4
rate) Gross a/	.052	.054	.070	+118.7
Average leaf export price	.427	.565	.638	+49.4
Gross rate as percentage of export price	7.5	9.6	11.0	+46.7
<u>Thailand - Europe</u>				
Freight) Net	.107	.150	.156	+45.8
rate) Gross a/	.107	.153	.187	+74.8
Average leaf export price	.337	.437	.469	+45.1
Gross rate as percentage of export price	31.7	36.4	38.2	+20.5
<u>East Africa - Europe</u>				
Freight) Net	.020	.041	.041	+46.4
rate) Gross	.026	.047	.047	+67.8
Average leaf export price b/	.511	.761	.877	+71.6
Gross rate as percentage of export price	5.5	6.2	5.4	-1.8
<u>United States - Europe</u>				
Freight) Net c/	.018	.022	.024	+33.4
rate) Gross	.020	.023	.031	+55.0
Average leaf export price d/	.722	.881	1.051	+45.6
Gross rate as percentage of export price	2.7	3.2	3.0	+11.1
<u>United States - Japan</u>				
Freight) Net	.046	.068	.093	+102.2
rate) Gross	.046	.075	.101	+119.6
Average leaf export price d/	.722	.881	1.051	+45.6
Gross rate as percentage of export price	6.4	8.5	10.0	+56.0
<u>Dominican Republic - Europe</u>				
Freight) Net	.024	.032	.040 ^{e/}	+66.7
rate) Gross	.024	.036	.043	+79.2
Average leaf export price f/	.350	.440	.420	+27.3
Gross rate as percentage of export price	7.3	8.2	10.2	+39.7

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Route	Freight rate			Percentage change
	1962	1973	1974	1969-74
<u>Republic of Korea - Europe</u>				
Freight) Net <u>g/</u>	23.07 ^{h/}	29.90	34.25	+48.5
rate) Gross <u>g/</u>	23.07 ^{h/}	29.90	45.79	+98.5
Average leaf export price	.300	.415	.488	+62.7
Gross rate as percentage of export price	na	na	na	na
<u>Turkey - United States</u>				
Freight) Net	.020	.027	.04	+85.0
rate) Gross <u>a/</u>	.020	na	na	na
Average leaf export price	.550	.750	1.160	+110.9
Gross rate as percentage of export price	3.6	na	na	na
<u>Brazil - Europe</u>				
Freight) Net	na	.041	.045	na
rate) Gross	na	na	na	na
Average leaf export price <u>d/</u>	.384	.564	.668	+74.0
Gross rate as percentage of export price	na	na	na	na

Source: Estimates by the UNCTAD secretariat, based on trade sources.

- a/ Includes currency adjustment factors and surcharges but not loyalty rebates.
- b/ Malawi flue-cured.
- c/ Including container discount.
- d/ Flue-cured.
- e/ Includes currency adjustment factor only.
- f/ Dark tobacco.
- g/ Per cubic metre.
- h/ December.

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